Letter to Stockholders

Notice of 2000 Annual Meeting and Proxy Statement

1999 Annual Report to Stockholders

- Management's Discussion and Analysis

older

Hershey Foods Corporation

Proxy Statement and 1999 Annual Report to Stockholders

March 13, 2000

To Our Stockholders:

There is no doubt that 1999 was a most difficult and disappointing year for Hershey Foods Corporation. While the year got off to a slow start due to excessive retail inventories, we fully expected a strong finish in the second half of the year. Instead, the implementation of the final phase of the Corporation's enterprise-wide information system created problems in the areas of customer service, warehousing and order fulfillment. These difficulties were exacerbated by our growth in recent years which had resulted in shipping capacity constraints. As a result, Hershey's sales and earnings fell well short of expectations for the year.

Entering the new year, we continued to work diligently to resolve these issues, and great progress has been made thus far. Moreover, our logistics capabilities will be further enhanced when the new Eastern Distribution Center, located near Hershey, begins operations in mid-2000.

Financial Results

Since we divested the pasta business in January 1999, we thought it would be useful to provide certain financial information excluding the results of the pasta business from both 1998 and 1999 as well as the 1998 results of our former Russian business which we exited in June 1998. On this basis, consolidated net sales for 1999 were $3,941,654,000, down 2.8 percent from $4,055,925,000 in 1998, and earnings before interest and taxes declined by 8.7 percent.

There is some good news, however, despite the problems we experienced in 1999. In fact, the underlying capabilities of our business, including brand strength, innovation and category management, have helped sustain us with our customers and consumers throughout this difficult period. **This year we are providing an online annual report (www.hersheys.com) to tell you this story in more detail.**

Category Strength

A bright spot throughout 1999 was the vibrancy of the U.S. confectionery market, with retail sales growing at a rate of

approximately four percent, substantially above the average growth rate of the packaged food group in general. Despite our shipping problems and slower-than-anticipated factory sales in the second half of the year, the retail dollar sales of Hershey's brands increased at a rate greater than the category for 1999 as a whole, leading to market share gains for the Corporation.

Also, it should be noted that Hershey Canada and Hershey Mexico achieved excellent results for 1999. Hershey Canada produced solid sales and earnings growth led by good performance of core chocolate brands and the introduction of *ReeseSticks* bars in the Canadian market. In addition, the Canadian dollar strengthened, yielding a favorable exchange rate which had a positive impact on Canadian results in U.S. dollar terms. Hershey Mexico had an excellent 1999, achieving outstanding sales and earnings growth. Leading performers in this market were *Hershey's* chocolate drink box, *Hershey's Kisses* chocolates, *Hershey's Kisses* with almonds, *Hershey's* milk chocolate bar, and *Jolly Rancher* candies.

Hershey International enjoyed excellent sales growth as our Asian markets recovered during 1999, and we invested aggressively in new market development, especially in South America. We expect our international business to continue to grow at an accelerated rate. However, the investment required to develop new markets will lead to little, if any, income contribution from this division for the next several years.

In addition, *Hershey's Chocolate World* visitors center had an outstanding year, due in part to the success of its catalogue sales via the Internet. These sales grew almost ten-fold, albeit off a very small base. We are investigating uses of the Internet to create other sales opportunities through enhanced communication with customers (especially smaller retailers), as well as through more direct contact with consumers.

Hershey's Strong Brand Franchise

The strong retail performance of our brands during 1999 stems from the strength of Hershey's brand franchise with the American consumer. Consistently high-quality products that deliver great taste and excellent consumer value are the foundation of this franchise, which now is more than a century old. Combining these elements with creative marketing, selling and merchandising activities, including executing new products and line extensions, forms a business model through which Hershey contributes to superior growth for the entire category. However, we need to restore our supply chain management process to its pre-1999 levels to fully restore this performance model.

Retail Consolidation

An important concern for investors in recent years has been the performance of consumer goods companies such as Hershey Foods in the face of the retail trade's continuing consolidation. There is no doubt that on a short-term basis, retail consolidation, especially in the drug store and grocery store areas, causes some disruption of product flow to customers and, ultimately, to consumers. Warehouse and store closings occur, taking inventory out of the system and creating short-term volume challenges for manufacturers.

In the longer term, however, we feel consolidation could actually benefit Hershey. The acquirers, generally speaking, have a better appreciation of the confectionery category's ability to deliver superior returns as a result of good margins and high turnover rates. However, it also is true that the large retailers will continue to pressure manufacturers for more efficiencies, reduced costs and increased promotional funding. As we see it, there are several keys to operating successfully in this environment:

• Strong Brands

First, we believe that strong brands, constantly nurtured through excellent quality and value, and by innovative merchandising and advertising programs, are the key. The consumer will demand familiar and highly regarded brands, and private label products will find it difficult to establish a beachhead if we are able to maintain a disciplined approach to pricing by keeping our costs low and our products affordable. Thanks to the strengths of our brands, Hershey is the leader by a considerable margin in the United States confectionery market, the largest and most profitable market in the world. Moreover, we have widened the lead over our nearest competitor over the past ten years and fully expect to maintain and enhance our position in the future.

• Innovation

We also believe those manufacturers creating truly new products meeting specific consumer needs will have a distinct advantage over their competitors and will be valuable partners for retailers. A major portion of confectionery is purchased on impulse, and innovation creates excitement for the confectionery category, feeding into this impulse nature very nicely. Hershey's creative thematic merchandising also feeds the excitement and triggers the impulse mechanism.

Hershey has had an excellent run of successful new product introductions during the 90s, and almost every new product introduced within that period is still in our line-up. This excellent batting average enables our customers to have confidence that our new products will deliver incremental sales.

The new *Hershey's Bites* line proved to be an unqualified success during 1999, greatly exceeding our initial expectations for the product when launched in December 1998. This high-quality entry in the unwrapped, bite-sized chocolate candy category originally consisted of four flavors: *Hershey's* milk chocolate with almonds, *Reese's* peanut butter, *Hershey's Cookies 'n' Creme*, and *Almond Joy* coconut and almond. A fifth flavor, *York* peppermint, was introduced in December 1999. While we were under-represented in this category prior to the introduction of the *Bites* line, Hershey's entries now enjoy a nice position in a category which grew over 50 percent in 1999.

ReeseSticks bars were introduced in February 1998 and proved so successful that demand exceeded our ability to produce all the usual packtypes. New production equipment was installed during 1999, enabling us to fully develop the potential of this excellent brand. Additional packtypes also helped offset some of the sales decline which normally follows a product's introductory year when the supply chain must be filled with sufficient inventory to support a national introduction.

In mid-January 1999, we introduced *Jolly Rancher* lollipops which capitalize on *Jolly Rancher* candies' strongest attribute: long-lasting, intense fruit flavor. The lollipops come in three flavors: cherry, apple and watermelon, and they have done very well in their first year of distribution. On a related note, *Jolly Rancher* celebrated its 50th anniversary during 1999, a tribute to the excellent quality of this brand. Since acquiring this business three years ago, we have built on the brand's equity by extending the line with *Jolly Rancher Jolly Beans* jelly beans, *Jolly Rancher* gummies candy, *Jolly Rancher Jolly Jellies* candy, *Jolly Rancher* bubble gum and, now, *Jolly Rancher* lollipops.

• Category Management

Another requisite during this period of retail consolidation is key customer account focus with intense category management. This category manager approach, where we are the category captains for many of the major accounts in the U.S. market, is a distinct competitive advantage for the Corporation. By partnering with our customers, we help them maximize the profitability of their confectionery space by providing the data and tactics which create sales growth for the whole category at a superior rate. With our well-trained sales teams applying the best analytical and managerial talent to the large retail market innovators, we are able to drive both category and Hershey sales. Finally,

we intend to use integrated information and category account profitability analysis along with efficient logistics to be an even better provider of first-class service to our customers.

- **Supply Chain Management**

The fourth pillar of retail consolidation well-being is supply chain management. Obviously, several circumstances have had an adverse effect on our supply chain execution capability. First, our overall internal growth has been significant, especially in terms of new product items. Second, the December 1996 Leaf acquisition increased our product base by 30 percent on an item basis, even though we discontinued almost half of the Leaf items because they did not meet our profit objectives. Third, the complexity of our thematic merchandising efforts created an added burden for our distribution system.

During 1998, all of this began to make itself apparent, and our distribution system came under stress. We began to experience certain inefficiencies and related higher costs. We have worked to reduce the complexity of our business and achieved some success during 1999. Until we get the new Eastern Distribution Center on line in mid-2000, however, we will not have this situation fully resolved to our satisfaction.

At the same time, we have experienced the well-publicized problems associated with the implementation of the final phase of our enterprise-wide information system. While this has been a painful process for us and for our customers, we should remember that the system is designed to make Hershey more competitive through lower costs, better customer service, and increased sales. It has not been the easiest journey, but we still expect to arrive at our intended destination.

Pasta Divestiture

An extremely important event for Hershey Foods in 1999 was the divestiture of our pasta business. We received $450 million and retained a minority interest in the business in a transaction which generated an after-tax gain of $1.17 per share-diluted. The cash proceeds were used to reduce debt and repurchase Common Stock shares. While this divestiture was somewhat dilutive on a continuing operations basis in 1999, we believe that we can generate a better return for our stockholders over the longer term by focusing resources on our confectionery and related grocery businesses.

Share Repurchase

During the course of the year, the Corporation repurchased 5.5 million shares for a total of $318 million. At the end of 1999, there remained $24 million of repurchase authorization which the Corporation has fully utilized this year. The Board of Directors has authorized a new program of $200 million to be implemented upon the conclusion of the current program.

Dividend Increase

Quarterly dividends were increased in August 1999 from $.24 per share to $.26 per share, an increase of 8.3 percent. This increase represented the 25th annual dividend increase on the Common Stock.

Management Changes

As part of a planned management transition process, Joseph P. Viviano, Vice Chairman of the Corporation and a member of the Board of Directors, retired on March 1, 2000. A 40-year veteran with Hershey Foods, he has been a key contributor to our success. Joe initially ran our pasta business, taking it to a position of industry leadership. Moving to our chocolate and confectionery business, he

accomplished the identical results, a tribute to his management skills and competence. He successfully served as President and Chief Operating Officer prior to his election as Vice Chairman. We will miss his experienced advice and counsel. Please refer to our online annual report for a more complete review of Joe's career at Hershey.

Michael V. Wells, Vice President, Logistics, will retire on April 1, 2000. He was key in designing and building the Corporation's logistics operation over the past 25 years, and his knowledge and experience in this area will be sorely missed.

In October 1999, Marcella Arline, formerly Director, Quality and Regulatory Compliance, was promoted to Vice President, Quality and Regulatory Compliance. She is responsible for product quality and safety, environmental and regulatory compliance, and nutrition affairs.

Effective January 1, 2000, the Corporation restructured its U.S. marketing organization to be more effectively aligned with the sales organization, and positioned better to prioritize, coordinate and implement activities in the brand equity and new product areas. Michael H. Holmes, formerly Vice President and General Manager, Chocolate, became Vice President, U.S. Marketing, with responsibility for all marketing activities in the United States. Reporting to Holmes are six marketing units, each headed by a marketing vice president.

Michael F. Pasquale, formerly Senior Vice President, Confectionery and Grocery, was named Executive Vice President and Chief Operating Officer, Hershey Foods Corporation, effective February 9, 2000. Mike was responsible for the Corporation's confectionery, grocery and international businesses as well as its research and development activities and now assumes additional responsibility for Hershey Foods' operations and manufacturing shared services. He also serves on the Corporation's Board of Directors. His leadership and broad experience will be especially valuable as we work to return Hershey Foods to its historical performance levels and to more profitable growth.

Looking to the Future

We certainly did not expect the problems we experienced with the implementation of our new enterprise-wide information system. However, the Corporation's employees did an excellent job responding to the problems once they appeared. Hershey employees responded with the same dedication and professionalism they have always demonstrated, and for this we express our heartfelt appreciation.

Time will give us perspective. As we resolve our problems, the frustrations will fade. In their place will be a solid appreciation of the benefits being realized through our new enterprise-wide information system. We will be a stronger, more competitive company for having come through this experience.

Kenneth L. Wolfe
Chairman and Chief
Executive Officer

2000 Annual Meeting of Stockholders

- 2:00 p.m., April 25, 2000 (doors open at 1:00 p.m.)
- Hershey Theatre, 15 East Caracas Avenue
- Map on back cover
- Refreshments and product sample available at HERSHEY'S CHOCOLATE WORLD visitors center from 9:00 a.m. to 6:00 p.m.
- Product sample and 25% discount on selected items at HERSHEY'S CHOCOLATE WORLD given in exchange for coupon provided to registered stockholders on bottom half of proxy card
- Vote by telephone or mark, sign and date the proxy card and mail it promptly
- Bring admission ticket from bottom half of your proxy card for admission to the Annual Meeting
- If your shares are held by a broker, bank or other nominee, obtain a letter from broker, bank or nominee, or bring your most recent account statement showing ownership of Hershey stock on February 28, 2000, to gain admission to the Annual Meeting and to receive HERSHEY'S CHOCOLATE WORLD discount and product sample.

Safe Harbor Statement

Please refer to the Safe Harbor Statement on page A-10 for information about factors which could cause future results to differ materially from forward-looking statements, expectations and assumptions expressed or implied in this publication.

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Hershey Foods Corporation

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

on

April 25, 2000

The Annual Meeting of Stockholders of HERSHEY FOODS CORPORATION will be held at 2:00 p.m. on April 25, 2000 at the Hershey Theatre, 15 East Caracas Avenue, Hershey, Pennsylvania 17033 for the following purposes:

(1) To elect ten directors;

(2) To approve the appointment of Arthur Andersen LLP as the Corporation's independent public accountants for 2000; and

(3) To transact such other business as may properly be brought before the meeting and any and all adjournments thereof.

In accordance with the By-Laws and action of the Board of Directors, stockholders of record at the close of business on February 28, 2000 will be entitled to notice of, and to vote at, the meeting and any and all adjournments thereof.

By order of the Board of Directors,

Robert M. Reese
Senior Vice President,
General Counsel and Secretary

March 13, 2000

Please follow the instructions on the enclosed proxy card for voting by telephone whether or not you plan to attend the meeting in person, or if you prefer, kindly mark, sign and date the enclosed proxy card and return it promptly in the enclosed, postage-paid envelope.

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of HERSHEY FOODS CORPORATION, a Delaware corporation (the "Corporation" or "Hershey Foods"), for use at the Annual Meeting of Stockholders ("Annual Meeting") which will be held at 2:00 p.m., Tuesday, April 25, 2000 at the Hershey Theatre, 15 East Caracas Avenue, Hershey, Pennsylvania, and at any and all adjournments of that meeting. This Proxy Statement and the enclosed proxy card are being sent to stockholders on or about March 13, 2000. The Corporation's principal executive offices are located at 100 Crystal A Drive, Hershey, Pennsylvania 17033-0810.

Shares represented by properly voted proxies received by the Corporation at or prior to the Annual Meeting will be voted according to the instructions indicated by such proxies. Unless contrary instructions are given, the persons named on the proxy card intend to vote the shares so represented **FOR** the election of the nominees for director named in this Proxy Statement and **FOR** approval of the appointment of Arthur Andersen LLP as the Corporation's independent public accountants for 2000. As to any other business which may properly come before the Annual Meeting, the persons named on the proxy card will vote according to their best judgment.

Proposal No. 1—ELECTION OF DIRECTORS

Ten directors are to be elected at the Annual Meeting, each to serve until the next Annual Meeting and until his or her successor shall have been elected and qualified. Each of the nominees named in the following pages is currently a member of the Board of Directors. Joseph P. Viviano, formerly Vice Chairman of the Board and a director, retired from the Board on March 1, 2000. Pursuant to the Corporation's Restated Certificate of Incorporation, as amended ("Certificate"), and By-Laws, one-sixth of the directors, which equates presently to two directors, is to be elected by the Corporation's Common Stock, one dollar par value ("Common Stock"), voting separately as a class. The two nominees receiving the greatest number of votes of the Common Stock voting separately as a class will be elected. Messrs. Allan Z. Loren and Mackey J. McDonald have been nominated by the Board of Directors for the two positions to be elected separately by the Common Stock. The remaining eight individuals listed have been nominated by the Board of Directors for the eight positions to be elected by the holders of the Common Stock and the Corporation's Class B Common Stock, one dollar par value ("Class B Stock"), voting together without regard to class. The eight nominees receiving the greatest number of votes of the Common Stock and Class B Stock voting together will be elected. In case any of the nominees should become unavailable for election for any reason not presently known or contemplated, the persons named on the proxy card will have discretionary authority to vote pursuant to the proxy for a substitute.

WILLIAM H. ALEXANDER, age 58, is Administrator of the Family Business Program, The Wharton School of the University of Pennsylvania, Philadelphia, Pennsylvania. Previously, he was with H. B. Alexander Enterprises, Inc. where he held a number of management positions, including Vice President and General Manager, President and Chairman. A Hershey Foods director since 1995, he is a member of the Audit Committee and the Committee on Directors and Corporate Governance.

ROBERT H. CAMPBELL, age 62, is Chairman of the Board and Chief Executive Officer, Sunoco, Inc., Philadelphia, Pennsylvania, a petroleum refiner and marketer. He has been Chief Executive Officer since 1991, Chairman of the Board since 1992 and has been a Director of Sunoco, Inc. since 1988. He is a director of CIGNA Corporation. A Hershey Foods director since 1995, he chairs the Compensation and Executive Organization Committee.

DR. C. McCOLLISTER EVARTS, age 68, is Chief Executive Officer, The Milton S. Hershey Medical Center; Senior Vice President for Health Affairs and Dean, and Professor of Orthopaedics and Rehabilitation, The Pennsylvania State University, College of Medicine, Hershey, Pennsylvania. He was formerly the President and Chief Academic Officer of the Penn State Geisinger Health System. He serves on the Board of Directors of Carpenter Technology Corporation. A Hershey Foods director since 1996, he is a member of the Compensation and Executive Organization Committee.

BONNIE GUITON HILL, age 58, is President and Chief Executive Officer of The Times Mirror Foundation; Vice President of The Times Mirror Company, a news and information company; and Senior Vice President, Communications and Public Affairs, *The Los Angeles Times*, Los Angeles, California. Previously she was Dean, McIntire School of Commerce, University of Virginia. She is a director of AK Steel Corporation, The Home Depot, Inc. and Niagara Mohawk Power Corporation. A Hershey Foods director since 1993, she is a member of the Committee on Directors and Corporate Governance.

JOHN C. JAMISON, age 65, is Chairman of the Board, Mallardee Associates, a privately-held corporate financial services firm, Williamsburg, Virginia. A Hershey Foods director since 1974, he chairs the Audit Committee and is a member of the Compensation and Executive Organization Committee.

ALLAN Z. LOREN, age 61, is Executive Vice President and Chief Information Officer of American Express Company, New York, a travel and financial services company. Prior to joining American Express in 1994, he was President and Chief Executive Officer of Galileo International and previously was a senior executive at Apple Computer. He is a director of Reynolds & Reynolds and the Venator Group. A Hershey Foods director since 1999, he is a member of the Audit Committee. He has been nominated for election by the Common Stock as a class.

MACKEY J. McDONALD, age 53, is Chairman of the Board, Chief Executive Officer and President of VF Corporation, Greensboro, North Carolina, an international apparel company. He was elected Chairman of the Board of VF Corporation in 1998. He has been Chief Executive Officer since 1996 and President since 1993. He is a director of First Union Corporation. A Hershey Foods director since 1996, he is a member of the Audit Committee and the Compensation and Executive Organization Committee. He has been nominated for election by the Common Stock as a class.

MICHAEL F. PASQUALE, age 52, is Executive Vice President and Chief Operating Officer, Hershey Foods Corporation. He served as President, Hershey Chocolate North America, from 1995 through 1998 and Senior Vice President, Confectionery and Grocery, Hershey Foods Corporation, in 1999. He is a director of Minerals Technologies, Inc. A director of the Corporation since 1999, he serves as a member of the Executive Committee.

JOHN M. PIETRUSKI, age 67, is Chairman of the Board of Texas Biotechnology Corporation, Houston, Texas, a pharmaceutical research and development company. He is a director of GPU, Inc., Lincoln National Corporation, and Professional Detailing Inc. A Hershey Foods director since 1987, he chairs the Committee on Directors and Corporate Governance.

KENNETH L. WOLFE, age 61, is Chairman of the Board and Chief Executive Officer, Hershey Foods Corporation. He was elected President and Chief Operating Officer in 1985 and has served in his current positions since 1994. He is a director of Bausch & Lomb Inc., Carpenter Technology Corporation, and GPU, Inc. A director of the Corporation since 1984, he chairs the Executive Committee and serves as a member of the Committee on Directors and Corporate Governance.

The Board of Directors recommends a vote FOR the director nominees listed above, and proxies which are returned will be so voted unless otherwise instructed.

BOARD COMMITTEES

The Board of Directors has four standing committees: the Audit Committee; the Committee on Directors and Corporate Governance; the Compensation and Executive Organization Committee; and the Executive Committee. In addition to the four standing committees, the Board from time to time establishes committees of limited duration for special purposes.

Audit Committee — 4 meetings in 1999

Members:

John C. Jamison (Chair)
William H. Alexander
Allan Z. Loren
Mackey J. McDonald

Responsibilities:

Recommends the appointment of the Corporation's independent public accountants;

Reviews the scope and results of the annual audit of the independent public accountants and the Corporation's internal auditors;

Reviews non-audit professional services provided by the independent public accountants;

Reviews with management and the independent public accountants the Corporation's system of internal accounting controls;

Reviews compliance by the Corporation and its employees with laws and regulations applicable to the Corporation's business and with the Corporation's Code of Ethical Business Conduct; and

Reviews the activities and recommendations of the Corporation's Internal Audit Department.

Committee on Directors and Corporate Governance 1 meeting in 1999

Members:	John M. Pietruski (Chair) William H. Alexander Bonnie Guiton Hill Kenneth L. Wolfe
Responsibilities:	Reviews and makes recommendations on the composition of the Board and its committees; Evaluates and recommends candidates for election to the Board; Administers the Directors' Compensation Plan; and Reviews and makes recommendations to the full Board on corporate governance matters and the Board's corporate governance policies.

The Committee will consider nominees recommended by stockholders. Such recommendations should be sent to Hershey Foods Corporation, Attn: Secretary, 100 Crystal A Drive, Hershey, Pennsylvania 17033-0810, and should include the proposed nominee's name, address and biographical information.

Compensation and Executive Organization Committee 7 meetings in 1999

Members:	Robert H. Campbell (Chair) C. McCollister Evarts, M.D. John C. Jamison Mackey J. McDonald
Responsibilities:	Establishes the salaries of the Corporation's elected officers; Grants performance stock units, stock options and other rights under the Corporation's Key Employee Incentive Plan ("Incentive Plan"); Establishes target-award levels and makes awards under the Annual Incentive Program and the Long-Term Incentive Program of the Incentive Plan; Administers the Incentive Plan, the Employee Benefits Protection Plans, and the Supplemental Executive Retirement Plan; Monitors compensation arrangements for management employees for consistency with corporate objectives and stockholders' interests; Reviews the executive organization of the Corporation; and Monitors the development of personnel available to fill key management positions as part of the succession planning process.

Executive Committee 9 meetings in 1999

Members:	Kenneth L. Wolfe (Chair) Michael F. Pasquale Joseph P. Viviano
Responsibilities:	Reviews and recommends to the full Board for approval major capital projects and expenditures; and Oversees the administration of and revisions to the Corporation's retirement and welfare benefit plans, including the pension plans covered by the Employee Retirement Income Security Act of 1974.

DIRECTORS' ATTENDANCE

There were 7 regular meetings and 1 special meeting of the Board of Directors during 1999. No director attended less than 83% of the sum of the total number of meetings of the Board of Directors and the total number of meetings held by all committees of the Board of Directors on which he or she served during 1999. Average attendance for all of these meetings equaled 96%.

DIRECTORS' COMPENSATION

Annual Retainer	$42,500
Annual Retainer for Committee Chairs	$ 3,000
Board Attendance Fee (per meeting)	$ 1,500
Committee Attendance Fee (per meeting)	$ 1,000

Directors who are employees of the Corporation receive no remuneration for their services as directors.

One-third of the annual retainer must be paid in Common Stock. The remainder may be taken in cash or Common Stock (meeting and chair fees are payable in cash only). A director may also defer receipt of the retainer and meeting fees until his or her retirement as a director.

All directors are reimbursed for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at Board and committee meetings and for minor incidental expenses incurred in connection with performance of directors' services. The Chair of the Compensation and Executive Organization Committee is also compensated for attendance at the Annual Meeting if the Annual Meeting does not coincide with a scheduled Board meeting. In addition, directors are provided with travel accident insurance while traveling on the Corporation's business, receive the same discounts as employees on the purchase of the Corporation's products, and are eligible to participate in the Corporation's Higher Education Gift Matching Program.

The Corporation maintains a Directors' Charitable Award Program for individuals who became directors prior to December 31, 1996. This program is a self-funded life insurance program on the directors and funds charitable donations by the Corporation to educational institutions designated by the directors. The amount of the donation varies according to the director's length of service as a director, up to a maximum donation of $1,000,000 after five years of service. Eight current directors and eleven retired directors (including Mr. Viviano, who retired on March 1, 2000) participate in the program. The amount of the charitable donation per current participating director is $1,000,000, except for Mr. Alexander, Mr. Campbell, Dr. Evarts and Mr. McDonald, for whom the current amount is $800,000 because of their shorter length of service as directors, and Messrs. Loren and Pasquale who became directors after 1996.

Proposal No. 2—APPOINTMENT OF AUDITORS

The Board of Directors, on the recommendation of the Audit Committee, has appointed Arthur Andersen LLP as independent public accountants for the Corporation for the year ending December 31, 2000. Although not required to do so, the Board of Directors is submitting the appointment of that firm for approval at the Annual Meeting. Arthur Andersen LLP has audited the Corporation's financial statements since 1927 and is considered to be well-qualified. If the appointment is not approved, the Board of Directors will reconsider its appointment. Representatives of Arthur Andersen LLP will be present at the Annual Meeting with the opportunity to make a statement if they so desire and will be available to respond to questions.

The affirmative vote of a majority of the votes represented at the Annual Meeting in person or by proxy of the Common Stock and Class B Stock voting together without regard to class is required for approval of the appointment of auditors.

The Board of Directors recommends a vote FOR Proposal No. 2, and proxies which are returned will be so voted unless a contrary vote is designated.

VOTING SECURITIES

The Corporation has shares of two classes of stock outstanding, Common Stock and Class B Stock. At the close of business on February 28, 2000, the record date for the Annual Meeting, there were outstanding 107,798,756 shares of Common Stock and 30,443,908 shares of Class B Stock, all of which are entitled to be voted. Holders of record of the Corporation's Common Stock on February 28, 2000 will be entitled to cast one vote for each share held, and holders of record of the Class B Stock on February 28, 2000 will be entitled to cast ten votes for each share held. The Common Stock is entitled to cash dividends 10% higher than those declared on the Class B Stock.

According to the Corporation's By-Laws, the presence in person or by proxy of the holders of a majority of the votes entitled to be cast of the outstanding Common Stock and Class B Stock, respectively, shall constitute quorums for matters to be voted on separately by the Common Stock as a class and the Class B Stock as a class. The presence in person or by proxy of the holders of a majority of the votes entitled to be cast by the combined outstanding shares of the Common Stock and the Class B Stock shall constitute a quorum for matters to be voted on without regard to class.

The vote required for approval of any matter which may be the subject of a vote of the stockholders is provided for in the Corporation's Certificate and By-Laws. The specific vote requirements for the proposals being submitted to a stockholder vote at this year's Annual Meeting are set forth under the description of each proposal in this Proxy Statement.

Abstentions and broker non-votes are counted for the purpose of determining whether a quorum is present at the Annual Meeting. For the purpose of determining whether a proposal (except for the election of directors) has received a majority vote, abstentions will be included in the vote totals with the result that an abstention will have the same effect as a negative vote. In instances where brokers are prohibited from exercising discretionary authority for beneficial owners who have not returned a proxy (broker non-votes), those shares will not be included in the vote totals and, therefore, will have no effect on the vote.

As of February 28, 2000, stockholders noted in the following table owned the indicated number of shares of the Corporation's Common Stock (including Common Stock equivalent shares) and Class B Stock. Unless otherwise indicated in a footnote, the individuals listed below have voting and disposition power over the shares indicated. The voting and disposition power over the shares held by the Milton Hershey School Trust and Hershey Trust Company are as indicated in the section entitled "Description of the Milton Hershey School Trust and Hershey Trust Company."

Holder	Common Stock[1]	Common Stock Equivalents[2]	Deferred Perform. Stock Units[3]	Percent of Common Stock	Class B Common Stock	Percent of Class B Stock
Milton Hershey School Trust Founders Hall Hershey, PA 17033[4]; Hershey Trust Company 100 Mansion Road Hershey, PA 17033[4]	12,276,671			11.4%	30,306,006	99.5%
Hershey Trust Company[4]	648,877			**		
W. H. Alexander*[5]	2,746	2,593		**		
R. H. Campbell*	1,075	4,714		**		
W. F. Christ	32,973		24,919	**		
C. M. Evarts, M.D.*	670	2,426		**		
B. Guiton Hill*[6]	1,209	1,845		**		
J. C. Jamison*	10,800	4,898		**		
A. Z. Loren*	100	865		**		
M. J. McDonald*	400	2,251		**		
M. F. Pasquale*	58,796		8,404	**		
J. M. Pietruski*	4,800	4,865		**		
R. M. Reese	44,523		16,243	**		
J. P. Viviano*	95,853		30,126	**		
K. L. Wolfe*	133,422		10,026	**		
All directors and executive officers as a group (16 persons)	399,758	24,457	105,423	**		

* Director
** Less than 1%

(1) The executive officers listed above also hold the following number of stock options which are exercisable as of February 28, 2000:

Name	Number of Shares
W. F. Christ	77,750
M. F. Pasquale	130,550
R. M. Reese	57,800
J. P. Viviano	208,600
K. L. Wolfe	215,700
Executive Officers as a Group	755,950

(2) These are Common Stock units credited under the Directors' Compensation Plan. The shares are fully vested and may be paid out in Common Stock shares upon the expiration of the deferral period.

(3) These units are Common Stock equivalents which are deferred under the Corporation's Incentive Plan. These units may be paid in full or in part in Common Stock and are fully vested.

(4) See "Description of the Milton Hershey School Trust and Hershey Trust Company" for further information on the voting of these securities.

(5) Includes 1,200 shares held in trust for which Mr. Alexander is trustee.

(6) Includes 150 shares held in trust by Ms. Guiton Hill's husband.

Description of the Milton Hershey School Trust and Hershey Trust Company

Milton Hershey School, a non-profit school for the full-time care and education of disadvantaged children located in Hershey, Pennsylvania, is the sole beneficiary of the trust established by Milton S. and Catherine S. Hershey in 1909. Investment decisions with respect to securities held by Hershey Trust Company, as Trustee for the benefit of Milton Hershey School (the "Milton Hershey School Trust"), are made by the Board of Directors of Hershey Trust Company, as Trustee, with the approval of the Board of Managers (governing body) of Milton Hershey School. Decisions regarding the voting of such securities are made by the Board of Directors of Hershey Trust Company, as Trustee for the benefit of Milton Hershey School. The Milton Hershey School Trust will be entitled to cast 12,276,671 of the total 107,798,756 votes, or 11.4%, entitled to be cast on matters required to be voted on separately by the holders of the Common Stock, and 315,336,731 of the total 412,237,836 votes, or 76.5%, entitled to be cast by the holders of the Common Stock and the Class B Stock voting together on matters to be voted on without regard to class.

Hershey Trust Company is a state-chartered trust company and holds 371,877 shares of the Corporation's Common Stock in its capacity as institutional fiduciary for 63 estates and trusts unrelated to the Milton Hershey School Trust. Hershey Trust Company also holds 277,000 shares of Common Stock as investments. Investment decisions and decisions with respect to voting of securities held by Hershey Trust Company as institutional fiduciary and as investments are made by the Board of Directors or management of Hershey Trust Company.

Hershey Trust Company, as Trustee for the benefit of Milton Hershey School, as fiduciary of the above-noted individual trusts and estates, and as direct owner of investment shares, will be entitled to vote 12,925,548 shares of Common Stock and 30,306,006 shares of Class B Stock at the meeting.

Pursuant to the Corporation's Certificate, all holders of Class B Stock, including the Milton Hershey School Trust, are entitled to convert any or all of their Class B Stock shares into shares of

Common Stock at any time on a share-for-share basis. In the event the Milton Hershey School Trust ceases to hold more than 50% of the outstanding shares of the Class B Stock and at least 15% of the total outstanding shares of both the Common Stock and Class B Stock, all shares of the Class B Stock will automatically be converted into shares of the Common Stock on a share-for-share basis. The Corporation's Certificate requires the approval of the Milton Hershey School Trust prior to the Corporation issuing shares of Common Stock or undertaking any other action which would cause the Milton Hershey School Trust to cease having voting control of the Corporation.

All of the outstanding shares of Hershey Trust Company are owned by the Milton Hershey School Trust. The members of the Board of Managers of Milton Hershey School are appointed by and from the Board of Directors of Hershey Trust Company. There are 17 members of the Board of Directors of Hershey Trust Company and of the Board of Managers of Milton Hershey School, including William H. Alexander and C. McCollister Evarts, M.D., who are directors of the Corporation, and Kenneth L. Wolfe, who is a director and Chairman of the Board and Chief Executive Officer of the Corporation. Dr. Evarts is also chair of the Board of Directors of Hershey Trust Company and of the Board of Managers of Milton Hershey School. Directors of Hershey Trust Company and members of the Milton Hershey School Board of Managers individually are not considered to be beneficial owners of the Corporation's shares of Common Stock or Class B Stock held by the Milton Hershey School Trust.

1999 EXECUTIVE COMPENSATION

Compensation and Executive Organization Committee Report on Executive Compensation

The Compensation and Executive Organization Committee of the Board of Directors ("Committee") is composed entirely of non-employee directors and is responsible for the establishment and oversight of the Corporation's executive compensation program.

Executive Compensation Philosophy

The Corporation's executive compensation program is designed to meet the following objectives:

> To connect the interests and performance of the executive officers with corporate performance and the interests of stockholders;
>
> To attract, retain and motivate executive talent;
>
> To assure that a significant portion of executive officers' total compensation is dependent upon the appreciation of the Corporation's Common Stock; and
>
> To provide a balanced total compensation package that recognizes the individual contributions of executive officers and the overall business results of the Corporation.

Each year the Committee conducts a full review of the Corporation's executive compensation program. The annual compensation review permits an ongoing evaluation of the link between the Corporation's performance and its executive compensation in the context of the compensation programs of other companies. This review is performed periodically with the assistance of an independent outside consultant whose services are retained by the Corporation. The Committee reserves the right to select and/or meet independently with any consultant at its discretion. This annual review includes analyzing survey data comparing the competitiveness of the Corporation's executive compensation, corporate performance, stock price appreciation and total return to stockholders with a peer group of companies representing the Corporation's most direct food industry competitors for executive talent. The Committee also considers compensation data compiled from surveys of a broader group of industrial companies, some of which are from the food industry. In the

performance graph on page 21, the Corporation's performance is compared to the Standard and Poor's Food Group Index. The peer group considered relevant for the Corporation's compensation comparison purposes does not include all of the companies in the Food Group Index as compensation data on all such companies is not readily available. Also, the peer group includes some companies that are not in the Food Group Index because the Corporation selects those companies it believes to be direct competitors for executive talent. The Committee reviews which peer companies are selected for compensation analysis.

In the review of survey data, a statistical process involving regression analysis is used to determine competitive compensation levels. This approach adjusts compensation levels for factors such as net sales, return on equity, and time in position within the organization in determining predicted values or "going rates" within the marketplace for each element of compensation. The Corporation targets total compensation "at or above" such "going rates."

In 1998, the Committee took several actions to adjust a shortfall in the long-term portion of the Corporation's executive compensation program versus competitive peer group companies. The survey results reviewed by the Committee in January 1999 showed that the shortfall had been remedied and that long-term incentive grants and aggregate total compensation for 1999 were again in line with the Corporation's targets versus competitive peer group companies.

The Committee believes the holding of significant equity interests in the Corporation by management aligns the interests of stockholders and management. Through the programs described in this report, a very significant portion of each executive officer's total compensation is linked directly to individual and corporate performance and stock price appreciation.

The key elements of the Corporation's executive compensation program consist of base salary, an annual cash incentive program, and a long-term incentive program consisting of performance stock units and stock options. Incentives play an important role in motivating executive performance and in aligning executive pay practices with the interests of the stockholders. The Corporation's executive compensation program is intended to reward achievement of both short and long-term business goals. To ensure proper balance in the achievement of these business goals, the incentive program places greater dollars at risk in long-term incentives compared to short-term incentives. The long-term incentive program is designed especially to assure that the Corporation's executive officers have a significant portion of their total compensation tied to factors which affect the performance of the Corporation's Common Stock.

The Committee determined the total compensation of K. L. Wolfe, Chairman of the Board and Chief Executive Officer, and it reviewed and approved the total compensation of the most highly-compensated executive officers, including those individuals whose compensation is detailed in this Proxy Statement. This is designed to ensure consistency throughout the executive compensation program.

The Committee's policies with respect to each of the elements of the executive compensation program, including the basis for the compensation awarded to Mr. Wolfe, are discussed below. While the elements of compensation are described separately below, the Committee considers the total compensation package afforded by the Corporation when determining each component of the executive officer's compensation, including pension benefits, supplemental retirement benefits, insurance, and other benefits.

Base Salaries

Base salaries for new executive officers are determined initially by evaluating the responsibilities of the position held, the experience of the individual, and salaries paid in the competitive marketplace

for executive talent, including a comparison of base salaries for comparable positions at other companies.

Salary reviews are conducted annually and salary adjustments are made based upon the performance of the Corporation and of each executive officer and their position in the applicable salary grade. The Committee considers both financial and, where appropriate, non-financial performance measures in making salary adjustments. Base salaries for executive officers and all other salaried employees are set within salary ranges established for their positions as determined through the annual competitive salary surveys described above. In the case of executive officers with responsibility for a particular business unit, such unit's financial results are also considered.

With respect to the base salary granted to Mr. Wolfe in 1999, the Committee made a favorable assessment of the Corporation's actual business results versus plan goals and the results achieved by Mr. Wolfe on various objectives the Committee established in 1998. The Committee also considered Mr. Wolfe's relative position in his salary grade. Based on these factors, the Committee in 1999 increased Mr. Wolfe's salary based on the Corporation's 1998 performance by $40,000, a 5.4% increase. In January 2000, Mr. Wolfe received no annual increase in his salary, based on the Committee's review of the Corporation's 1999 performance.

Annual Incentive Program

The Corporation's executive officers, as well as other key management and professional employees, are eligible for an annual cash incentive award under the Annual Incentive Program ("AIP") of the Incentive Plan. Participating executive officers are eligible to earn individual awards expressed as a percentage of base salary.

The final award is the product of the executive officer's base salary, the applicable target percentage, a corporate or business unit performance score and an individual performance score. Individual and short-term (annual) corporate and business unit performance objectives are established at the beginning of each year by the Committee. For executive officers at the corporate level, the performance objectives for AIP award payments for 1999 were based on financial measures including earnings per share, economic value added, free cash flow, and certain productivity objectives, including a $100 million cost savings objective. For executive officers at the business unit and shared service level, the performance objectives for 1999 were varying combinations of consolidated earnings per share, economic value added, free cash flow, corporate productivity objectives, business unit contribution income and various sales growth and market share objectives. Adjustments are made to the performance results, if necessary, to take into account extraordinary or unusual items occurring during the performance year. Since the final award is the product of the factors described above, the corporate or business unit performance and individual performance scores are given equal weight in the formula. Performance scores in excess of the objectives for financial measures and/or individual performance expectations may result in the individual executive officer receiving more than his/her target percentage. The maximum corporate or business unit performance score for a plan participant is 175%. The maximum score on the individual performance score is 120%. The applicable individual performance score for the Chairman of the Board and Chief Executive Officer and Vice Chairman is 120% with the Committee having discretion to adjust this percentage downward. Guidelines have been established which in certain instances limit the individual performance score in relationship to the corporate or business unit scores. The range of the target percentages of base salary used in 1999 for annual cash incentive awards for executive officers was 35% to 60%, with the highest rate of 60% applicable only to Mr. Wolfe.

No annual cash incentive awards are granted unless a specific corporate performance level is achieved. This performance level is defined as a minimum rate of return which average total invested capital must earn before any awards are paid. This is designed with the stockholders' interests in mind

by assuring the Corporation achieves certain profitability levels before any executive is granted an annual incentive award.

In 1999, corporate-level participants in the AIP (which included Mr. Wolfe) did not achieve the corporate performance objectives set for earnings per share and economic value added and only partially achieved performance objectives for free cash flow and corporate productivity measures. Based on these results, Mr. Wolfe declined his 1999 annual cash incentive award.

Long-Term Incentive Program—Performance Stock Units

Performance stock units ("PSUs") were contingently granted in January 1999 under the Incentive Plan to members of the Corporation's senior executive group most in a position to affect the Corporation's long-term results (a combined total of 23 individuals in 1999). PSU grants are based upon a percentage of the executive's annual salary. PSUs are granted every year and are earned based upon the Corporation's performance over a three-year cycle. Each year begins a new three-year cycle. Provided the Corporation has achieved the established performance objectives at the end of the three-year cycle, a payment is made either in shares of Common Stock, cash, or a combination of both, based on the market value of the shares at the end of the cycle. In determining whether performance objectives have been achieved, specific adjustments established by the Committee can be made to the corporate performance to take into account extraordinary or unusual items occurring during the performance cycle. Payment may be deferred to a later date at the election of the executive. The value of each of the PSUs is tied to corporate performance (in determining what percentage of shares is earned) and stock price appreciation. The established performance measures are earnings per share, economic value added and cumulative free cash flow. The performance scores can range from 0% to 150%.

The Corporation has minimum stockholding guidelines for its executive officers and certain other key managerial and professional employees of the Corporation which require these individuals to accumulate gradually over time shares of Common Stock and/or deferred PSUs. The value equivalent of the shares which must be acquired and held is equal to a multiple of the individual's base salary. Minimum stockholding requirements for executive officers range from three to five times base salary. If the minimum has not been met, the executive officer is required to take the PSU award in Common Stock (net of withholding taxes) or deferred PSUs. For Mr. Wolfe, the applicable multiple in 1999 was five times his base salary.

In January 1997, each eligible member of the senior executive group was granted PSUs having a value at the time of grant equal to a percentage of his or her annual salary. This percentage was determined by the Committee based on the recommendation of senior management and competitive survey information. The performance objectives established for the grant for earnings per share and return on net assets were not achieved and the performance objective for cumulative free cash flow was partially achieved for the period ended December 31, 1999. Accordingly, Mr. Wolfe's award was valued at $92,746 based on the December 1999 average market value of the PSUs from the 1997 grant.

The table in this Proxy Statement, entitled "Long-Term Incentive Program Performance Stock Unit Awards in Year-Ended December 31, 1999," provides additional information regarding PSU grants for the five most highly-compensated executive officers.

Long-Term Incentive Program—Stock Options

Under the Incentive Plan, stock options are periodically granted to the Corporation's senior executive group as well as to other key management and professional employees. Stock options entitle the holder to purchase during a specified time period a fixed number of shares of Common Stock at a set price.

The Committee sets guidelines for the number of stock options to be granted based on competitive compensation data gathered from survey information discussed above. The number of stock options granted is a function of the employee's base pay, stock option multiples for the employee's grade level and the imputed value of the option. The Committee also takes into account management's recommendations regarding the number of options to be awarded to specific employees as well as competitive pay practices within the food industry and the amount of options outstanding or previously granted. While stock options have been granted annually to members of the senior executive group, the Committee can elect not to grant stock options in a given year. Stock option recipients other than the senior executive group (over 500 key employees) generally receive stock option grants every two years.

Beginning with stock options granted after 1995, employees desiring to receive cash upon exercise through a same-day purchase and sale transaction must first meet certain minimum stockholding requirements. If the minimums are not satisfied, an individual can receive only one-half of the after-tax profit from the option exercise in cash. The remaining one-half of the profit must be retained in Common Stock. Minimum stockholding requirements range from one to five times base salary. For Mr. Wolfe, the applicable multiple in 1999 was five times his base salary.

Stock options are designed to align the interests of executives with those of the stockholders. Stock options are granted with a ten-year term and an exercise price equal to the closing market price of the Common Stock on the day preceding the date of grant. Starting in 1997, stock options granted to the senior executive group have a two-year vesting requirement similar to that already applicable to the non-senior management group receiving options. This approach is designed as an incentive for future performance by the creation of stockholder value over the long-term since the benefit of the stock options cannot be realized unless stock price appreciation occurs.

In 1999, Mr. Wolfe received options to purchase 42,150 shares of Common Stock with an exercise price of $59.4375 per share, the closing market price on the day preceding the grant.

Policy Regarding Tax Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code of 1986 (the "Code") provides that publicly-held companies may be limited in deducting certain compensation in excess of $1 million paid to the chief executive officer and the four other most highly-compensated officers. The Committee has considered the effect of Section 162(m) of the Code on the Corporation's executive compensation program to develop its policy with respect to the deductibility of the Corporation's executive compensation. It is the Committee's position that in administering the "performance based" portion of the Corporation's executive compensation program, it will attempt to comply with the requirements of Section 162(m). However, the Committee believes that it needs to retain the flexibility to exercise its judgment in assessing an executive's performance and that the total compensation system for executive officers should be managed in accordance with the objectives outlined in the "Executive Compensation Philosophy" section of this report and in the best overall interest of the Corporation's stockholders. Should compliance with Section 162(m) conflict with the "Executive Compensation Philosophy" or with what the Committee believes to be in the best interest of the stockholders, the Committee will act in accordance with the Philosophy and in the best interest of the stockholders, notwithstanding the effect of such action on deductibility for any given year. However, to assure that the Corporation does not lose deductions for compensation paid, the Committee has adopted a deferral policy requiring the executive to defer receipt of any compensation in excess of $1 million that is not deductible in any given year to the year in which such compensation would be deductible by the Corporation.

Conclusion

In 1999, as in previous years, a substantial portion of the Corporation's executive compensation consisted of performance-based variable elements. The Committee intends to continue the policy of linking executive compensation to corporate performance and returns to stockholders.

SUBMITTED BY THE COMPENSATION AND EXECUTIVE ORGANIZATION COMMITTEE OF THE CORPORATION'S BOARD OF DIRECTORS:

Robert H. Campbell, Chair   C. McCollister Evarts, M.D.   John C. Jamison   Mackey J. McDonald

Summary of Cash and Certain Other Compensation

The following table shows for the fiscal years ended December 31, 1999, 1998, and 1997 the cash compensation paid by the Corporation, as well as certain other compensation paid or accrued for those years, to each of the five most highly-compensated executive officers of the Corporation.

Summary Compensation Table

Name and Principal Position	Annual Compensation			Long-Term Compensation		
	Year	Salary(1)	Bonus(2)	Stock Option Awards	LTIP(3) Payouts	All Other(4) Compensation
K. L. Wolfe Chairman and Chief Executive Officer	1999 1998 1997	$775,000 735,000 660,000	$ 0 359,944 778,750	42,150 57,000 47,500	$ 92,746 1,456,946 1,770,640	$ 4,000 4,000 4,000
J. P. Viviano Vice Chairman of the Board	1999 1998 1997	$600,000 590,000 530,000	$ 44,220 230,642 610,051	27,050 35,950 32,250	$ 62,758 996,858 1,211,077	$ 4,000 4,000 4,000
M. F. Pasquale(5) Executive Vice President and Chief Operating Officer	1999 1998 1997	$400,000 360,000 340,000	$ 27,554 152,280 248,710	17,400 21,300 19,650	$ 38,181 613,451 761,467	$ 4,000 4,000 4,000
W. F. Christ Senior Vice President, Chief Financial Officer and Treasurer	1999 1998 1997	$331,250 303,000 281,000	$ 22,864 118,135 281,787	12,650 15,350 13,100	$ 25,719 412,162 495,412	$ 4,000 54,000(6) 4,000
R. M. Reese Senior Vice President, General Counsel and Secretary	1999 1998 1997	$278,000 258,000 238,000	$ 18,104 79,048 189,273	8,200 7,400 9,300	$ 18,321 287,555 321,101	$ 4,000 4,000 4,000

(1) This column includes amounts deferred pursuant to Section 401(k) of the Internal Revenue Code that were contributed by the executive officer to the Corporation's Employee Savings Stock Investment and Ownership Plan ("ESSIOP").

(2) This column represents annual cash incentive awards (paid out or deferred) attributable to services rendered for that year.

(3) This column reports the cash value earned in PSU payouts during each of the last three fiscal years at the end of the following three performance cycles: 1997-99, 1996-98, and 1995-97 under the Incentive Plan which were paid or deferred in the fiscal year immediately following the last year of the respective three-year cycle.

(4) This column includes the Corporation's matching contributions to the individual's ESSIOP account for 1999, 1998, and 1997.

(5) During 1999, Mr. Pasquale was Senior Vice President, Confectionery and Grocery, of the Corporation.

(6) Includes a special award approved by the Board of Directors.

Long-Term Incentive Program—Stock Options

The following table contains information concerning the grant of stock options under the Incentive Plan to the five most highly-compensated executive officers of the Corporation as of the end of the last fiscal year:

Option Grants for the Year-Ended December 31, 1999

Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Stock Option Term	
Name	Number of Securities Underlying Options Granted(1)	% of Total Options Granted to Employees in 1999(2)	Exercise or Base Price ($/Sh)(3)	Expiration Date	5%(4)(6)	10%(4)(6)
K. L. Wolfe	42,150	21.3%	$ 59.4375	1/13/09	$ 1,575,564	$ 3,992,788
J. P. Viviano	27,050	13.7%	59.4375	1/13/09	1,011,127	2,562,394
M. F. Pasquale	17,400	8.8%	59.4375	1/13/09	650,411	1,648,268
W. F. Christ	12,650	6.4%	59.4375	1/13/09	472,856	1,198,310
R. M. Reese	8,200	4.2%	59.4375	1/13/09	306,515	776,770
All Stockholders(5)	N/A	N/A	N/A	N/A	$5,353,620,614	$13,567,125,755

(1) All stock options listed in this column are subject to a two-year vesting period and have a ten-year term. All stock options were granted on January 14, 1999 at a price of $59.4375, which equates to 100% of the fair market value of the Common Stock on the date of grant (determined as the closing price on the business day immediately preceding the date the stock options were granted). All stock options expire at the end of the stock option holder's employment, except in the case of a stock option held by an employee whose employment ends due to retirement, total disability or death, in which instance the employee or his estate may exercise the stock option within five years of the date of retirement, total disability or death (three years for options granted prior to 1997) or, if sooner, upon expiration of the ten-year term of the stock options.

(2) In 1999, 26 employees were granted a total of 197,450 stock options.

(3) The exercise price may be paid in cash, shares of Common Stock valued at the fair market value on the date of exercise, or pursuant to a cashless exercise procedure under which the stock option holder provides irrevocable instructions to a brokerage firm to sell the purchased shares and to remit to the Corporation, out of the sales proceeds, an amount equal to the exercise price plus all applicable withholding taxes.

(4) The dollar amounts under these columns for all the individuals are the result of annual appreciation rates for the term of the options (10 years) as required by the Securities and Exchange Commission and, therefore, are not intended to forecast possible future appreciation, if any, of the price of the Common Stock.

(5) For "All Stockholders," the potential realizable value on 143,221,815 shares, the number of outstanding shares of Common Stock and Class B Stock on January 14, 1999, is based on a $59.4375 per share price (the exercise price of the 1999 options). The value of the Common Stock and Class B Stock at $59.4375 per share was $8,512,746,629. The amounts listed under these columns for "All Stockholders" are the result of annual appreciation rates for a period of ten years from January 14, 1999 through and including January 13, 2009. The amounts are not intended to forecast possible future appreciation, if any, of the price of the Common Stock.

(6) As of February 28, 2000, the market price of the Common Stock was $44.125, or $15.3125 less than the exercise price of $59.4375 for the 1999 options. If this reduction in market price is taken into account in computing the assumed annual rates of stock price appreciation of 5% and 10%, respectively, from February 28, 2000 through January 13, 2009 (the expiration date of the 1999 options), the potential realizable value of the options for each of the named executive officers and for all stockholders would be as follows: At 5%—K. L. Wolfe $379,976, J. P. Viviano $243,852, M. F. Pasquale $156,859, W. F. Christ $114,038, R. M. Reese $73,922, All Stockholders $1,291,124,257; At 10%—K. L. Wolfe $1,880,183, J. P. Viviano $1,206,618, M. F. Pasquale $776,161, W. F. Christ $564,278, R. M. Reese $365,777, All Stockholders $6,388,687,176. These amounts are not intended to forecast possible future appreciation, if any, of the price of the Common Stock.

The following table sets forth information with respect to the five most highly-compensated executive officers concerning the exercise of stock options during the last fiscal year and unexercised stock options held as of the end of the fiscal year:

Aggregated Option Exercises in Year-Ended December 31, 1999 and Year-End Option Values

	Shares		Securities Underlying Number of Unexercised Options at 12/31/99 (#)[1]		Value of Unexercised Options at 12/31/99 ($)[1]	
Name	Acquired on Exercise (#)[1]	Value Realized ($)	Exer-cisable	Unexer-cisable	Exer-cisable	Unexer-cisable
K. L. Wolfe	98,300	$3,525,208	158,700	99,150	$2,183,556	$0
J. P. Viviano	0	0	172,650	63,000	2,984,534	0
M. F. Pasquale	0	0	109,250	38,700	1,913,897	0
W. F. Christ	14,400	529,388	62,400	28,000	1,028,175	0
R. M. Reese	9,200	312,225	50,400	15,600	897,781	0

(1) All of the stock options were granted under the Incentive Plan. The fair market value of the Common Stock on December 31, 1999, the last trading day of the Corporation's fiscal year, was $47.4375.

Long-Term Incentive Program—Performance Stock Units

The following table provides information concerning performance stock unit grants made to the five most highly-compensated executive officers of the Corporation during the last fiscal year under the long-term incentive program portion of the Incentive Plan. Payments made under the program for the three-year performance cycle ending December 31, 1999 are reported in the Summary Compensation Table.

Long-Term Incentive Program
Performance Stock Unit Awards in Year-Ended December 31, 1999

Name	Number of Shares, Units or Other Rights[1]	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts		
			Threshold (#)[2]	Target (#)[3]	Maximum (#)[4]
K. L. Wolfe	10,550	3 years	879	10,550	15,825
J. P. Viviano	6,750	3 years	562	6,750	10,125
M. F. Pasquale	4,350	3 years	362	4,350	6,525
W. F. Christ	3,150	3 years	262	3,150	4,725
R. M. Reese	2,050	3 years	171	2,050	3,075

(1) The PSUs reported in this table were granted on January 14, 1999 for the cycle commencing January 1, 1999 and ending December 31, 2001.

For purposes of determining the number of grants, the value of each PSU is based on the average of the daily closing prices of the Common Stock on the New York Stock Exchange as reported in *The Wall Street Journal* for the December preceding the new three-year performance cycle.

The final value of the award is determined based upon three factors. The first is the number of PSUs awarded at the commencement of the three-year cycle. The second factor relates to the performance score as measured against predetermined earnings per share, economic value added and cumulative free cash flow objectives for the 1999-2001 three-year cycle. The performance scoring can range from a minimum of 0% to a maximum of 150% achievement. The third factor involves the value per unit which is determined at the conclusion of the three-year cycle.

(2) This column lists the number of shares of Common Stock, the value of which would be payable to the named executives at the threshold achievement level of 8⅓%. If the achievement level at the end of the three-year cycle is less than this threshold, no payments are made.

(3) This column lists the number of shares of Common Stock, the value of which would be payable to the named executives at the target, or 100% achievement level.

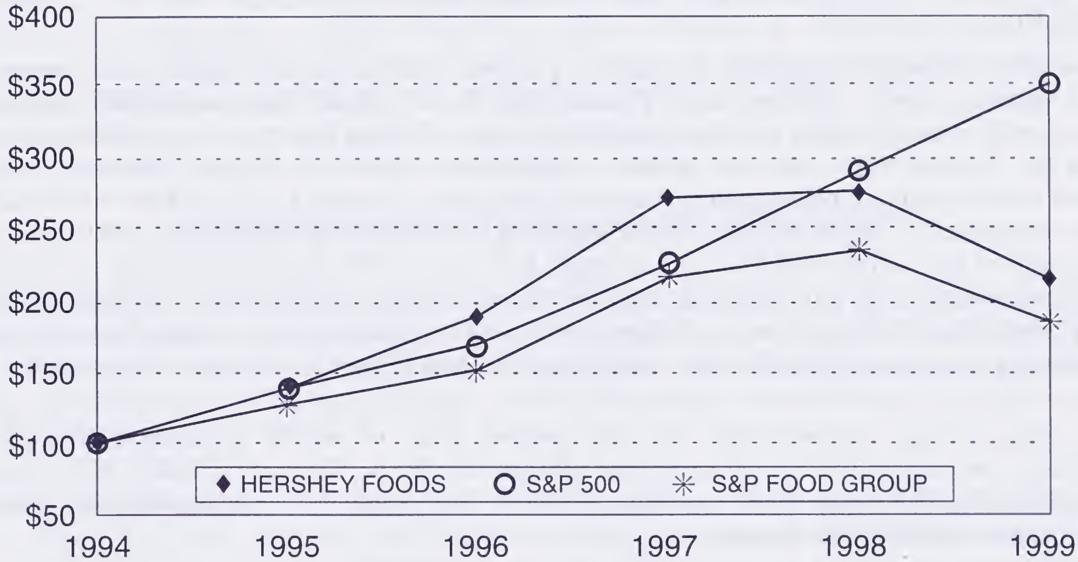
(4) This column lists the number of shares of Common Stock, the value of which would be payable to the named executives at the 150% achievement level.

Performance Graph

The following graph compares the Corporation's cumulative total stockholder return (Common Stock price appreciation plus dividends, on a reinvested basis) over the last five fiscal years with the Standard and Poor's 500 Index and the Standard and Poor's Food Industry Group Index.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*

HERSHEY FOODS CORPORATION, S&P 500 INDEX AND S&P FOOD GROUP INDEX



	1994	1995	1996	1997	1998	1999
HERSHEY	$100	$138	$189	$271	$276	$214
S&P 500	$100	$138	$169	$225	$290	$351
S&P FOOD	$100	$127	$151	$216	$234	$184

*Total return assumes reinvestment of dividends.
Assumes $100 invested on 12/31/94 in Hershey Common Stock, S&P 500 Index and S&P Food Group Index.

Benefit Protection Arrangements

The Corporation provides an Executive Benefits Protection Plan ("Benefits Protection Plan") for the five executive officers named in the Summary Compensation Table and other key management personnel. The Benefits Protection Plan replaces severance agreements previously entered into with these individuals. The terms of the Benefits Protection Plan are consistent with the practices followed by other major public corporations in the U.S. and generally provide that in the event the executive's employment with the Corporation terminates within two years after a "change in control" of the Corporation, the executive is entitled to certain severance payments and benefits. A "change in control" is defined to include an event in which the Milton Hershey School Trust no longer holds voting control of the Corporation and another party acquires 25% or more of the combined voting power or common equity of the Corporation. Under the Benefits Protection Plan, upon the executive's termination after a change in control as described above, and in order to assist the executive in transitioning to new employment, the executive generally would be entitled to receive in a lump sum three times the executive's base salary, AIP bonus and PSU payout. The executive would also be entitled to continuation of health benefits for a period of three years and reimbursement for federal excise taxes payable (but not for income taxes payable). The executive would also become vested in benefits under existing compensation and benefit programs (including those described in the Executive Compensation section) and would generally be paid such benefits at the time of the executive's termination from a grantor trust to be established and funded at the time of any such change in control.

The Milton Hershey School Trust has indicated to the Corporation that it intends to maintain voting control of the Corporation and, therefore, it is unlikely that the Benefits Protection Plan would be utilized. The Milton Hershey School Trust has also indicated that it, however, accepts the position of the Corporation's Board of Directors that such arrangements are part of the usual and ordinary compensation packages at major public companies and are important to the Corporation's ability to attract and retain key employees.

Pension Plans

Executive officers are eligible to receive pension benefits payable under the Corporation's qualified defined benefit pension plan ("Pension Plan"), as well as the nonqualified supplemental executive retirement plan that provides benefits in excess of those that may be provided under plans (such as the Pension Plan) that are subject to limitations under the Internal Revenue Code. The combined benefit paid to a participant pursuant to these plans is equal to 55% of that individual's final average compensation. Final average compensation is determined by adding the participant's three year average of base salary and five year average AIP bonus. The combined amounts paid under the two plans are reduced by any applicable Social Security benefits received, by a specified percentage for each month that retirement occurs before age 60, and by a specified percentage for each year that retirement occurs prior to the individual completing 15 years of service with the Corporation.

The final average compensation and the credited years of service as of December 31, 1999, respectively, for each of the named executive officers are: K. L. Wolfe, $1,279,584, 30.8 years; J. P. Viviano, $973,072, 31.7 years; M. F. Pasquale, $566,262, 20.4 years; W. F. Christ, $498,061, 29.2 years; and R. M. Reese, $384,374, 20.4 years.

VOTING OF PROXIES

A proxy may be revoked at any time before it is voted at the meeting by submitting to the Secretary of the Corporation a written notice revoking it, by a duly-executed proxy bearing a later date, by a telephone vote cast at a later date, or by voting by ballot at the meeting. Shares held for each participant in the Corporation's Automatic Dividend Reinvestment Service Plan or the ESSIOP will be voted by the plan trustee as directed by the participant's proxy. If an Automatic Dividend Reinvestment Service Plan participant does not return a proxy, the participant's shares in the plan will not be voted. If an ESSIOP participant does not return a proxy, that participant's shares will be voted by the plan trustee in the same proportion as the final aggregate votes of plan participants actually voting on the matter.

SOLICITATION OF PROXIES

The cost of preparing, assembling and mailing this proxy solicitation material and Notice of Annual Meeting of Stockholders will be paid by the Corporation. The Corporation has retained ChaseMellon Shareholder Services to assist in soliciting proxies for a fee of $4,750 plus reimbursement of reasonable out-of-pocket expenses. Additional solicitation by mail, telephone, telecopier or by personal solicitation may be done by directors, officers and regular employees of the Corporation, for which they will receive no additional compensation. Brokerage houses and other nominees, fiduciaries and custodians nominally holding shares of the Corporation's stock as of the record date will be requested to forward proxy soliciting material to the beneficial owners of such shares and will be reimbursed by the Corporation for their reasonable expenses.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Corporation's executive officers, directors and 10% stockholders are required under the Securities Exchange Act of 1934 to file with the Securities and Exchange Commission and the New York Stock Exchange reports of ownership and changes in ownership in their holdings of the Corporation's stock. Copies of these reports must also be furnished to the Corporation. Based on an examination of these reports and on written representations provided to the Corporation, all such reports have been timely filed, except that inadvertently reports were not timely filed in connection with one purchase of 100 shares of the Corporation's Common Stock by a director, William H. Alexander, in November 1999, and one purchase of 100 shares of the Corporation's Common Stock by the wife of Kenneth L. Wolfe, Chairman and Chief Executive Officer of the Corporation, in December 1996.

CERTAIN TRANSACTIONS AND RELATIONSHIPS

During 1999 the Corporation and its subsidiaries had a number of transactions with Milton Hershey School, the Milton Hershey School Trust, and companies owned by the Milton Hershey School Trust, involving the purchase or sale of goods and services. These transactions were primarily with Hershey Entertainment & Resorts Company, based in Hershey, Pennsylvania, and wholly-owned by the Milton Hershey School Trust.

The aggregate value of sales made during 1999 by the Corporation and its subsidiaries to Milton Hershey School, the Milton Hershey School Trust, and companies owned by the Milton Hershey School Trust, amounted to approximately $950,000. During the same year, the Corporation purchased goods and services from these entities in the amount of approximately $1,600,000. These transactions were on terms that the Corporation believes to be no less favorable to the Corporation than those which could have been obtained from other purchasers or vendors.

From time to time the Corporation also makes purchases of real property in the Hershey area from the Milton Hershey School Trust and from Hershey Entertainment & Resorts Company, which have substantial real estate holdings in the area. These transactions are made on terms that the Corporation believes are as favorable to it as would be available to other purchasers. In July 1999, the Corporation acquired approximately 94 acres of land near Hershey, Pennsylvania, from the Milton Hershey School Trust at a purchase price of $1,797,500. The purchase price was the fair market value of the land as determined by two independent appraisers, one representing the seller and the other representing the buyer. The site was acquired for construction and development of a new warehouse and distribution facility which the Corporation will lease.

OTHER BUSINESS

As of February 25, 2000, the Corporation had received no proposal, nomination for director or other business submitted in accordance with its By-Laws for consideration at the Annual Meeting, and therefore, it is not expected that any business other than that set forth in the Notice of Annual Meeting of Stockholders and more specifically described in this Proxy Statement will be brought before the Annual Meeting. However, if any other business should properly come before the Annual Meeting, it is the intention of the persons named on the enclosed proxy card to vote the signed proxies received by them in accordance with their best judgment on such business and any matters dealing with the conduct of the Annual Meeting.

STOCKHOLDER PROPOSALS AND NOMINATIONS

The 2001 Annual Meeting of Stockholders will be held on April 24, 2001. To be eligible for inclusion in the Corporation's Proxy Statement for the 2001 Annual Meeting of Stockholders, stockholder proposals must be received by the Corporation by November 13, 2000.

Stockholders (other than those holding 25% of the outstanding votes entitled to be cast) who do not submit proposals for inclusion in the Proxy Statement but who intend to present a proposal, nomination for director or other business for consideration at any meeting of stockholders, including any annual meeting, are required by the Corporation's By-Laws to notify the Secretary of the Corporation of their proposal or nomination and provide other information in advance of such meeting. Stockholders interested in making proposals at the 2001 Annual Meeting should submit their name and address, their shareholdings, a brief description of the proposal, and any financial or other interest they have in such proposal to the Corporation no earlier than December 28, 2000 and no later than January 29, 2001.

In addition, the Corporation's By-Laws require that a stockholder wishing to make a nomination for director at the 2001 Annual Meeting, who does not submit the nomination for inclusion in the Proxy Statement for such meeting, must submit the following information to the Corporation no earlier than December 28, 2000 and no later than January 29, 2001: name and address, a representation that the stockholder is a holder of record and intends to attend such meeting, a description of any arrangement between the stockholder and the individual planned to be nominated, the nominee's name, address and biographical information, and the consent of the nominee.

All notices for stockholder proposals and director nominations should be sent to Hershey Foods Corporation, Attn: Secretary, 100 Crystal A Drive, Hershey, Pennsylvania 17033-0810.

ANNUAL REPORT ON FORM 10-K AND ANNUAL REPORT TO STOCKHOLDERS

The Corporation will provide without charge to each beneficial owner of its Common Stock and Class B Common Stock, upon such stockholder's request, a copy (without exhibits) of the Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 filed with the Securities and Exchange Commission. Requests for copies should be addressed to Hershey Foods Corporation, Attn: Investor Relations Department, 100 Crystal A Drive, Hershey, Pennsylvania 17033-0810.

Appendix A to this Proxy Statement contains the Annual Report to Stockholders, including Management's Discussion and Analysis and the Consolidated Financial Statements, and Appendix B contains other investor information. Appendix A, Appendix B and the Annual Report on Form 10-K are not part of the Corporation's proxy solicitation materials.

By order of the Board of Directors,

Robert M. Reese
Senior Vice President,
General Counsel and Secretary

March 13, 2000

Stockholders who desire to have their stock voted at the meeting are requested to either (1) follow the telephone voting instructions on the enclosed proxy card or (2) mark, sign, and date the enclosed proxy card and return it promptly in the enclosed, postage-paid envelope. Stockholders may revoke their proxies at any time prior to the meeting and stockholders who are present at the meeting may revoke their proxies and vote, if they so desire, in person.

Appendix A

Annual Report to Stockholders

HERSHEY FOODS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Corporation's sales decreased in 1999, following a record performance in 1998. During the two-year period, net sales decreased at a compound annual rate of 4%. The sales decrease reflected the divestiture of the Corporation's pasta business in January 1999 and reduced 1999 shipments in the United States of confectionery and grocery products, which more than offset higher sales for core confectionery and grocery brands in 1998. The reduction in shipments resulted primarily from difficulties in order fulfillment (customer service, warehousing, and shipping) encountered since the start-up of a new integrated information system and new business processes during the third quarter of 1999. The sales decrease was partially offset by incremental sales from the introduction of new confectionery products, and to a lessor extent, sales increases in the Canadian and Mexican markets.

The Corporation's income increased in 1999 reflecting the gain on the sale of the Corporation's pasta business. Excluding the $165.0 million after-tax gain on the sale of the pasta business, net income decreased in 1999 following a record performance in 1998. During the two-year period, net income decreased at a compound annual rate of 6%. The decrease in net income reflected the divestiture of the pasta business and sales decline in 1999, and a lower gross margin over the two-year period, partly the result of higher costs associated with the order fulfillment difficulties noted above. These items were partially offset by lower levels of selling and marketing, administrative and interest expenses.

The following divestiture occurred during the period:

- January 1999—The completion of the sale of a 94% majority interest of the Corporation's U.S. pasta business to New World Pasta, LLC. The transaction included the *American Beauty*, *Ideal by San Giorgio*, *Light 'n Fluffy*, *Mrs. Weiss*, *P&R*, *Ronzoni*, *San Giorgio* and *Skinner* pasta brands, along with six manufacturing plants. In the first quarter of 1999, the Corporation received cash proceeds of $450.0 million, retained a 6% minority interest and recorded a gain of approximately $243.8 million before tax, $165.0 million or $1.17 per share—diluted after tax, as a result of the transaction.

Net Sales

Net sales decreased $464.7 million or 10% in 1999 following an increase in 1998 of $133.4 million or 3%. The decrease in 1999 was primarily a result of the divestiture of the Corporation's pasta business, resulting in a sales reduction of $343.8 million, and sales decreases in the United States of core confectionery and grocery products. Sales of confectionery and grocery products declined in the first quarter of 1999 primarily as a result of the December 1998 buy-in on promotions of regular count and vending items. Sales decreases in the third and fourth quarters were primarily the result of problems encountered since the July start-up of new business systems and processes. These sales declines were partially offset by incremental sales from the introduction of new confectionery products, increased export sales in international markets and sales increases in the Corporation's Canadian and Mexican markets. The increase in 1998 was primarily a result of incremental sales from the introduction of new confectionery products and increased sales volume for core confectionery and grocery products in North America. These increases were offset somewhat by a decline in sales in the Corporation's Asian and Russian markets and the impact of currency exchange rates in the Canadian and Mexican markets, in addition to higher levels of confectionery unsalables and lower sales of pasta products.

Costs and Expenses

Cost of sales as a percent of net sales increased from 57.9% in 1997 to 59.2% in 1998, and to 59.3% in 1999. The decrease in gross margin in 1999 reflected lower profitability resulting from the mix of confectionery items sold in 1999 compared with sales during 1998, primarily related to lower sales of

the more profitable standard bars. Higher freight and distribution costs, reflecting increased costs related to the implementation of new business systems and processes and distribution center capacity constraints, and higher depreciation expense as a percent of sales, also contributed to the lower gross margin. These cost increases were offset partially by selling price increases in the Corporation's Canadian and Mexican markets and decreased costs for packaging materials and certain raw materials. The decrease in gross margin in 1998 was principally the result of higher costs for certain major raw materials, primarily milk and cocoa, labor and overhead, higher shipping and distribution costs and the mix of non-chocolate and chocolate confectionery items sold in 1998 compared to 1997. These cost increases were partially offset by lower costs for certain raw materials and improved manufacturing efficiencies, including significant improvements in plants acquired with the Leaf confectionery business in December 1996, from an affiliate of Huhtamäki Oy.

Selling, marketing and administrative expenses decreased by 9% in 1999, reflecting lower expenses resulting from the divestiture of the pasta business, reduced marketing expenses for core confectionery brands and lower administrative expenses. These decreases were offset partially by increased spending associated with the introduction of new products and international exports, in addition to higher amortization expense for capitalized software. Excluding the divestiture of the pasta business, advertising and promotion expense was essentially equal to the prior year as a percent of sales. Selling, marketing and administrative costs decreased by 1% in 1998, as reduced marketing expenses for existing brands, lower selling expenses in international markets and lower administrative expenses were only partially offset by higher marketing expenses associated with the introduction of new products.

During the first quarter of 1999, the Corporation changed its retiree medical plan to eliminate coverage for all eligible hourly employees under age 45, to be replaced by annual contributions into the Employee Savings Stock Investment and Ownership Plan (ESSIOP). The change applied primarily to U.S. hourly employees working in Pennsylvania. This change resulted in the recognition of a $15.4 million pre-tax gain in 1999, excluding contributions to the ESSIOP. Effective December 1998, all U.S. full-time salaried employees, and all non-union hourly plant employees working outside Hershey, Pennsylvania under age 45 were eligible for the ESSIOP contributions, resulting in the recognition of a $13.0 million pre-tax gain in 1998.

Interest Expense, Net

Net interest expense in 1999 was $11.4 million below the prior year, primarily as a result of lower short-term interest expense as a portion of the proceeds from the sale of the pasta business and positive cash flow was used to reduce short-term borrowings. Net interest expense in 1998 exceeded the prior year by $9.4 million, primarily as a result of increased borrowings associated with the purchase of Common Stock from the Hershey Trust Company, as Trustee for the benefit of Milton Hershey School (Milton Hershey School Trust), partially offset by lower interest expense reflecting reduced average short-term borrowings.

Provision for Income Taxes

The Corporation's effective income tax rate was 39.3%, 38.8% and 36.8% in 1997, 1998 and 1999, respectively. Excluding the provision for income taxes associated with the gain on the sale of the pasta business, the effective income tax rate was 39.0% in 1999. The rate decreased from 39.3% in 1997 to 38.8% in 1998 primarily due to changes in the mix of the Corporation's income among various tax jurisdictions.

Net Income

Net income increased $119.4 million in 1999, reflecting an after-tax gain of $165.0 million on the sale of the Corporation's pasta business. Excluding the gain, net income decreased $45.6 million or 13%

in 1999, following an increase of $4.6 million or 1% in 1998. Excluding the gain on the sale of the pasta business, net income as a percent of net sales was 7.4% in 1999, 7.7% in 1998 and 7.8% in 1997.

FINANCIAL POSITION

The Corporation's financial position remained strong during 1999. The capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) was 50% as of December 31, 1999 and 54% as of December 31, 1998. The ratio of current assets to current liabilities was 1.8:1 as of December 31, 1999, and 1.4:1 as of December 31, 1998. The lower capitalization ratio as of December 31, 1999, and the higher ratio of current assets to current liabilities primarily reflected the use of a portion of the proceeds from the sale of the pasta business to reduce short-term borrowings.

Assets

Total assets decreased $57.4 million or 2% as of December 31, 1999, primarily as a result of the divestiture of the pasta business and lower accounts receivable, substantially offset by increases in inventories and cash and cash equivalents.

Current assets increased by $146.0 million or 13% reflecting increased inventories, cash and cash equivalents, prepaid expenses and other current assets. An increase in inventories of $109.0 million primarily reflected higher raw material and finished goods inventories. The increase in cash and cash equivalents resulted from higher cash collections from customers in December compared to the prior year and year 2000 contingency plans. A decrease in accounts receivable reflected lower sales and increased collections from customers in December, as well as a reduction of accounts receivable with extended payment terms as of December 31, 1999.

As of December 31, 1999, accounts receivable included increased deductions from customer invoices and higher past due amounts as compared to the prior year. These increases were primarily the result of shipping, billing and processing difficulties encountered during the third and fourth quarters associated with the July start-up of the new integrated information system and new business processes. The Corporation has made substantial progress in resolving these problems, clearing open deductions and collecting past due receivables.

Property, plant and equipment was lower than the prior year primarily due to the divestiture of the pasta business and depreciation expense of $135.6 million, partially offset by capital additions of $115.4 million. The increase in other non-current assets was primarily associated with the capitalization of software.

Liabilities

Total liabilities decreased by $113.8 million or 5% as of December 31, 1999, primarily reflecting a reduction of short-term borrowings and the divestiture of the pasta business, partially offset by an increase in accrued income taxes. The decrease in short-term debt of $136.7 million resulted from the use of a portion of the proceeds from the sale of the pasta business and positive cash flow to repay commercial paper borrowings. The increase in accrued income taxes of $54.7 million primarily reflected the income tax provision on the gain on sale of the pasta business.

Capital Structure

The Corporation has two classes of stock outstanding, Common Stock and Class B Common Stock (Class B Stock). Holders of the Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the

Common Stock having one vote per share and the Class B Stock having ten votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

LIQUIDITY

Historically, the Corporation's major source of financing has been cash generated from operations. The Corporation's income and, consequently, cash provided from operations during the year are affected by seasonal sales patterns, the timing of new product introductions, business acquisitions and divestitures, and price increases. Chocolate, confectionery and grocery seasonal and holiday-related sales have typically been highest during the third and fourth quarters of the year, representing the principal seasonal effect. Generally, seasonal working capital needs peak during the summer months and have been met by issuing commercial paper.

Over the past three years, cash requirements for share repurchases, capital expenditures, capitalized software additions and dividend payments exceeded cash provided from operating activities and proceeds from the sale of the pasta business by $102.9 million. Total debt, including debt assumed, increased during the period by $119.6 million. Cash and cash equivalents increased by $56.7 million during the period.

The Corporation anticipates that capital expenditures will be in the range of $150 million to $170 million per annum during the next several years as a result of continued modernization of existing facilities and capacity expansion to support new products and line extensions. As of December 31, 1999, the Corporation's principal capital commitments included manufacturing capacity expansion, modernization and efficiency improvements.

In January 1999, the Corporation implemented the first phase of an enterprise-wide integrated information system in the United States. The first phase of system implementation included new business systems and processes related to purchasing, accounts payable, fixed assets, the general ledger, production reporting, and tracking of plant inventories. The start-up of the second phase of system implementation began in July 1999 and included systems and processes in the areas of sales order and billing, transportation planning and management, electronic data interchange communications with warehouses, finished goods inventories, accounts receivable and tracking of marketing promotions. As of December 31, 1999, approximately $98.8 million of capitalized software and hardware and $13.2 million of expenses were incurred for the enterprise-wide information system and related projects. Total commitments for these systems are expected to be approximately $115 million to $120 million, including incremental costs to resolve problems encountered with new business systems and processes. These expenditures were financed with cash provided from operations and short-term borrowings.

In July 1999, the Corporation entered into an operating lease agreement for an amount not to exceed $65 million for the purpose of financing construction costs of a warehouse and distribution facility located on land owned by the Corporation near Hershey, Pennsylvania. Under the agreement, the lessor pays for the construction costs and thereafter leases the facility to the Corporation. The lease term is six years, including the construction period. The lease may be extended at the Corporation's option for up to four renewal periods of five years each. The lease provides for a substantial residual guarantee and includes an option to purchase the facility at original cost. The first phase of the distribution center is expected to open in the second quarter of 2000.

During 1999, 5,478,379 shares of Common Stock were repurchased for $318.0 million under share repurchase programs, including 1,579,779 shares purchased from the Milton Hershey School Trust for $100.0 million. Under share repurchase programs which began in 1993, a total of 15,339,498 shares of

Common Stock have been repurchased for approximately $605.6 million. Of the shares repurchased, 528,000 shares were retired, 1,320,781 shares were reissued to satisfy stock options obligations, Supplemental Retirement Contributions and employee stock ownership trust (ESOP) obligations and the remaining 13,490,717 shares were held as Treasury Stock as of December 31, 1999. Additionally, the Corporation has purchased a total of 28,000,536 shares of its Common Stock to be held as Treasury Stock from the Milton Hershey School Trust for $1.0 billion. As of December 31, 1999, a total of 41,491,253 shares were held as Treasury Stock and $24.4 million remained available for repurchases of Common Stock under the program approved by the Corporation's Board of Directors in February 1999. In October 1999, the Corporation's Board of Directors approved an additional share repurchase program authorizing the repurchase of up to $200 million of the Corporation's Common Stock.

In March 1997, the Corporation issued $150 million of 6.95% Notes under a November 1993 Form S-3 Registration Statement. In August 1997, the Corporation filed another Form S-3 Registration Statement under which it could offer, on a delayed or continuous basis, up to $500 million of additional debt securities. Also in August 1997, the Corporation issued $150 million of 6.95% Notes due 2012 and $250 million of 7.2% Debentures due 2027 under the November 1993 and August 1997 Registration Statements. Proceeds from the debt issuance were used to repay a portion of the short-term borrowings associated with the purchase of Common Stock from the Milton Hershey School Trust. As of December 31, 1999, $250 million of debt securities remained available for issuance under the August 1997 Registration Statement. Proceeds from any offering of the $250 million of debt securities available under the shelf registration may be used for general corporate requirements which include reducing existing commercial paper borrowings, financing capital additions and share repurchases, and funding future business acquisitions and working capital requirements.

As of December 31, 1999, the Corporation maintained a committed credit facility agreement with a syndicate of banks in the amount of $500.0 million which could be borrowed directly or used to support the issuance of commercial paper. The Corporation has the option to increase the credit facility by $1.0 billion with the concurrence of the banks. In December 1999, the short-term credit facility agreement was renewed for a total of $200 million and the long-term committed credit facility agreement remained in effect for $300 million, expiring in December 2002. The credit facilities may be used to fund general corporate requirements, to support commercial paper borrowings and, in certain instances, to finance future business acquisitions. The Corporation also had lines of credit with domestic and international commercial banks of $25.0 million and $23.0 million as of December 31, 1999 and 1998, respectively.

Cash Flow Activities

Cash provided from operating activities totaled $1.2 billion during the past three years. Over this period, cash used by or provided from accounts receivable and inventories has tended to fluctuate as a result of sales during December and inventory management practices. The change in cash required for or provided from other assets and liabilities between the years was primarily related to commodities transactions, the timing of payments for accrued liabilities, including income taxes, and variations in the funding status of pension plans.

Investing activities included capital additions and a business divestiture. Capital additions during the past three years included the purchase of manufacturing equipment, and expansion and modernization of existing facilities. In 1999, the Corporation's pasta business was sold for $450 million in cash.

Financing activities included debt borrowings and repayments, payment of dividends, the exercise of stock options, incentive plan transactions and the repurchase of Common Stock. During the past three years, short-term borrowings in the form of commercial paper or bank borrowings were used to

fund seasonal working capital requirements, share repurchase programs and purchases of Common Stock from the Milton Hershey School Trust. The proceeds from the issuance of long-term debt were used to reduce short-term borrowings. During the past three years, a total of 15,802,718 shares of Common Stock have been repurchased for $841.8 million, including 11,480,769 shares purchased from the Milton Hershey School Trust for $600.0 million. Cash requirements for incentive plan transactions were $57.5 million during the past three years, substantially offset by cash received from the exercise of stock options of $52.6 million. Cash used by incentive plan transactions in 1997 and 1998 reflected purchases of the Corporation's Common Stock in the open market to repurchase Common Stock issued for stock options exercises. Beginning in early 1998, shares of treasury stock were reissued for stock options exercises.

ACCOUNTING POLICIES AND MARKET RISKS ASSOCIATED WITH DERIVATIVE INSTRUMENTS

The Corporation utilizes certain derivative instruments, including interest rate swaps and forward agreements, foreign currency forward exchange contracts and commodity futures contracts, to manage interest rate, currency exchange rate and commodity market price risk exposures. The interest rate swaps and forward agreements, and foreign currency contracts are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. Commodity futures contracts are entered into for varying periods and are intended and effective as hedges of anticipated raw material purchases. The Corporation does not hold or issue derivative instruments for trading purposes and is not a party to any instruments with leverage or prepayment features. In entering into these contracts, the Corporation has assumed the risk which might arise from the possible inability of counterparties to meet the terms of their contracts. The Corporation does not expect any losses as a result of counterparty defaults.

The information below summarizes the Corporation's market risks associated with long-term debt and derivative instruments outstanding as of December 31, 1999. This information should be read in conjunction with Note 1, Note 5, Note 7 and Note 8 to the Consolidated Financial Statements.

Long-Term Debt

The table below presents the principal cash flows and related interest rates by maturity date for long-term debt as of December 31, 1999. The fair value of long-term debt was determined based upon quoted market prices for the same or similar debt issues.

	Maturity Date (In thousands of dollars except for rates)							
	2000	2001	2002	2003	2004	There-after	Total	Fair Value
Long-term Debt	$2,440	$712	$838	$17,133	$136	$859,394	$880,653	$856,856
Fixed Rate	6.4%	2.0%	2.0%	4.4%	2.0%	7.2%	7.1%	

Interest Rate Swaps and Forward Agreements

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements. In October 1999, the Corporation entered into an interest rate swap agreement to effectively convert $200 million of 6.7% Notes Due 2005 (Notes) to variable rate debt. The interest rate swap agreement is cancelable at the sole discretion of the counterparty effective April 2, 2001. At the same time, the Corporation entered into forward interest rate agreements to fix the interest rate on the Notes at 5.8% through April 2, 2001. Subsequently, if the counterparty chooses not to cancel the agreement, the interest rate on the Notes would be variable based on the London InterBank Offered Rate (LIBOR) until expiration on October 1, 2005.

As of December 31, 1998, the Corporation had agreements outstanding with an aggregate notional amount of $75.0 million maturing in September 1999 to effectively convert a portion of its floating rate commercial paper borrowings to fixed rate debt. As of December 31, 1998, interest rates payable were at a weighted average fixed rate of 6.3% and interest rates receivable averaging 5.2% were based on 30-day commercial paper composite rates. Any interest rate differential on interest rate swaps and forward agreements is recognized as an adjustment to interest expense over the term of each agreement. The Corporation's risk related to interest rate swap and forward agreements is limited to the cost of replacing such agreements at prevailing market rates. The potential loss in fair value of interest rate swaps and forward agreements resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of December 31, 1999 and 1998.

Foreign Exchange Contracts

The Corporation enters into foreign exchange forward contracts to hedge transactions primarily related to firm commitments to purchase equipment, certain raw materials and finished goods denominated in foreign currencies, and to hedge payment of intercompany transactions with its non-domestic subsidiaries. These contracts reduce currency risk from exchange rate movements.

Foreign exchange forward contracts are intended and effective as hedges of firm, identifiable, foreign currency commitments. In accordance with Statement of Financial Accounting Standards No. 52, Foreign Currency Translation, these contracts meet the conditions for hedge accounting treatment and accordingly, gains and losses are deferred and accounted for as part of the underlying transactions. Gains and losses on terminated derivatives designated as hedges are accounted for as part of the originally hedged transaction. Gains and losses on derivatives designated as hedges of items which mature, are sold or terminated, are recorded currently in income.

As of December 31, 1999, the Corporation had foreign exchange forward contracts maturing in 2000 and 2001 to purchase $18.0 million in foreign currency, primarily euros and British sterling, and to sell $31.2 million in foreign currency, primarily Canadian dollars and Japanese yen, at contracted forward rates.

As of December 31, 1998, the Corporation had foreign exchange forward contracts maturing in 1999 and 2000 to purchase $10.5 million in foreign currency, primarily British sterling and Dutch gilders, and to sell $9.6 million in Japanese yen at contracted forward rates.

The fair value of foreign exchange forward contracts was estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences. As of December 31, 1999 and 1998, the fair value of foreign exchange forward contracts approximated the contract value. The potential loss in fair value of foreign exchange forward contracts resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of December 31, 1999 and 1998.

Commodity Price Risk Management

The Corporation's most significant raw materials include cocoa, sugar, milk, peanuts and almonds. The Corporation attempts to minimize the effect of future price fluctuations related to the purchase of these raw materials primarily through forward purchasing to cover future manufacturing requirements, generally for periods from 3 to 24 months. With regard to cocoa, sugar, corn sweeteners, natural gas and certain dairy products, price risks are also managed by entering into futures contracts. At the present time, active futures contracts are not available for use in pricing the Corporation's other major raw materials. Futures contracts are used in combination with forward purchasing of cocoa, sugar, corn sweetener, natural gas and certain dairy product requirements principally to take advantage of market fluctuations which provide more favorable pricing opportunities and to increase

diversity or flexibility in sourcing these raw materials and energy requirements. The Corporation's commodity procurement practices are intended to reduce the risk of future price increases, but also may potentially limit the ability to benefit from possible price decreases.

The cost of cocoa beans and the prices for the related commodity futures contracts historically have been subject to wide fluctuations attributable to a variety of factors, including the effect of weather on crop yield, other imbalances between supply and demand, currency exchange rates, political unrest in producing countries and speculative influences. Cocoa prices have declined recently as additional production, spurred by higher prices of the mid 1990's, has come on stream and as the economic difficulties in eastern Europe, particularly Russia, and Southeast Asia, have negatively impacted demand. During 2000, these negative demand influences could continue to keep cocoa futures prices contained. The Corporation's costs during 2000 will not necessarily reflect market price fluctuations because of its forward purchasing practices, premiums and discounts reflective of relative values, varying delivery times, and supply and demand for specific varieties and grades of cocoa beans.

Commodities Futures Contracts

In connection with the purchasing of cocoa, sugar, corn sweeteners, natural gas and certain dairy products for anticipated manufacturing requirements, the Corporation enters into commodities futures contracts as deemed appropriate to reduce the effect of price fluctuations. In accordance with Statement of Financial Accounting Standards No. 80, Accounting for Futures Contracts, these futures contracts meet the hedge criteria and are accounted for as hedges. Accordingly, gains and losses are deferred and recognized in cost of sales as part of the product cost. Gains and losses on futures designated as hedges of anticipated purchases which are no longer likely to occur are recorded currently in income.

Exchange traded futures contracts are used to fix the price of physical forward purchase contracts. Cash transfers reflecting changes in the value of futures contracts are made on a daily basis and are included in other current assets or accrued liabilities on the consolidated balance sheets. Such cash transfers will be offset by higher or lower cash requirements for payment of invoice prices of raw materials and energy requirements in the future. Futures being held in excess of the amount required to fix the price of unpriced physical forward contracts are effective as hedges of anticipated purchases.

The following sensitivity analysis reflects the market risk of the Corporation to a hypothetical adverse market price movement of ten percent, based on the Corporation's net commodity positions at four dates spaced equally throughout the year. The Corporation's net commodity positions consist of the excess of futures contracts held over unpriced physical forward contracts for the same commodities, relating to cocoa, sugar, corn sweeteners and natural gas. Inventories, priced forward contracts and estimated anticipated purchases not yet contracted for were not included in the sensitivity analysis calculations. A loss is defined, for purposes of determining market risk, as the potential decrease in fair value or the opportunity cost resulting from the hypothetical adverse price movement. The fair values of net commodity positions were based upon quoted market prices or estimated future prices including estimated carrying costs corresponding with the future delivery period.

For the years ended December 31,	**1999**		**1998**	
In millions of dollars	**Fair Value**	**Market Risk (Hypothetical 10% Change)**	**Fair Value**	**Market Risk (Hypothetical 10% Change)**
Highest long position	**$147.7**	**$14.8**	$134.9	$13.5
Lowest long position	**54.3**	**5.4**	45.6	4.6
Average position (long)	**111.0**	**11.1**	76.3	7.6

Sensitivity analysis disclosures represent forward-looking statements which are subject to certain risks and uncertainties that could cause actual results to differ materially from those presently anticipated or projected. The important factors that could affect the sensitivity analysis disclosures include significant increases or decreases in market prices reflecting fluctuations attributable to the effect of weather on crop yield, other imbalances between supply and demand, currency exchange rates, political unrest in producing countries and speculative influences in addition to changes in the Corporation's hedging strategies.

MARKET PRICES AND DIVIDENDS

Cash dividends paid on the Corporation's Common Stock and Class B Stock were $136.7 million in 1999 and $129.0 million in 1998. The annual dividend rate on the Common Stock was $1.04 per share, an increase of 8% over the 1998 rate of $.96 per share. The 1999 dividend represented the 25th consecutive year of Common Stock dividend increases.

On February 9, 2000, the Corporation's Board of Directors declared a quarterly dividend of $.26 per share of Common Stock payable on March 15, 2000, to stockholders of record as of February 25, 2000. It is the Corporation's 281st consecutive Common Stock dividend. A quarterly dividend of $.235 per share of Class B Stock also was declared.

Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange (NYSE) under the ticker symbol "HSY." Approximately 128.6 million shares of the Corporation's Common Stock were traded during 1999. The Class B Stock is not publicly traded.

The closing price of the Common Stock on December 31, 1999, was $47 7/16. There were 43,265 stockholders of record of the Common Stock and the Class B Stock as of December 31, 1999.

The following table shows the dividends paid per share of Common Stock and Class B Stock and the price range of the Common Stock for each quarter of the past two years:

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
1999				
1st Quarter	**$ .24**	**$ .2175**	**$64 7/8**	**$54 1/8**
2nd Quarter	**.24**	**.2175**	**59 1/2**	**48 13/16**
3rd Quarter	**.26**	**.2350**	**61 7/16**	**48 1/2**
4th Quarter	**.26**	**.2350**	**54 3/16**	**45 3/4**
Total	**$ 1.00**	**$ .9050**		
1998				
1st Quarter	$ .22	$ .2000	$73 3/8	$59 11/16
2nd Quarter	.22	.2000	76 3/8	67 3/16
3rd Quarter	.24	.2175	72 5/16	60 1/2
4th Quarter	.24	.2175	75 13/16	60 3/4
Total	$ .92	$ .8350		

* NYSE-Composite Quotations for Common Stock by calendar quarter.

RETURN MEASURES

Operating Return on Average Stockholders' Equity

The Corporation's operating return on average stockholders' equity was 27.6% in 1999. Over the most recent five-year period, the return has ranged from 22.2% in 1995 to 36.0% in 1998. For the purpose of calculating operating return on average stockholders' equity, earnings is defined as net income, excluding the after-tax restructuring activities in 1995, the after-tax loss on the disposal of businesses in 1996 and the after-tax gain on the sale of the pasta business in 1999.

Operating Return on Average Invested Capital

The Corporation's operating return on average invested capital was 14.8% in 1999. Over the most recent five-year period, the return has ranged from 17.8% in 1996 to 14.8% in 1999. Average invested capital consists of the annual average of beginning and ending balances of long-term debt, deferred income taxes and stockholders' equity. For the purpose of calculating operating return on average invested capital, earnings is defined as net income, excluding the after-tax restructuring activities in 1995, the after-tax loss on disposal of businesses in 1996, the after-tax gain on the sale of the pasta business in 1999, and the after-tax effect of interest on long-term debt.

YEAR 2000 ISSUES

The Corporation completed its year 2000 testing and remediation programs in the third quarter of 1999. No significant year 2000 problems have been encountered with the Corporation's information technology (IT) and non-IT systems. The total cost of testing and remediation of the Corporation's IT and non-IT systems not being replaced by the integrated information system project was approximately $6.0 million.

The Corporation also assessed year 2000 remediation issues relating to its major business partners. All of the Corporation's major customers have been contacted regarding year 2000 issues related to electronic data interchange. The Corporation also contacted all of its major suppliers of ingredients, packaging, facilities, logistics and financial services with regard to year 2000 issues. No significant year 2000 problems have been encountered with the Corporation's major business partners.

SAFE HARBOR STATEMENT

The nature of the Corporation's operations and the environment in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Corporation notes the following factors which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. Many of the forward looking statements contained in this document may be identified by the use of forward-looking words such as "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential" among others. Factors which could cause results to differ include, but are not limited to: changes in the confectionery and grocery business environment, including actions of competitors and changes in consumer preferences; changes in governmental laws and regulations, including income taxes; market demand for new and existing products; raw material pricing; the Corporation's ability to fully remedy the problems and avoid the increased costs encountered since implementing changes to the customer service, warehousing, and order fulfillment processes and systems in the third quarter of 1999; the ability to restore customer service to historical levels; the effects service levels and other factors have on future customer demand; and the ability to complete construction and commence operations of new warehousing facilities on schedule.

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31,	1999	1998	1997
In thousands of dollars except per share amounts			
Net Sales	**$3,970,924**	$4,435,615	$4,302,236
Costs and Expenses:			
Cost of sales	**2,354,724**	2,625,057	2,488,896
Selling, marketing and administrative	**1,057,840**	1,167,895	1,183,130
Gain on sale of business	**(243,785)**	—	—
Total costs and expenses	**3,168,779**	3,792,952	3,672,026
Income before Interest and Income Taxes	**802,145**	642,663	630,210
Interest expense, net	**74,271**	85,657	76,255
Income before Income Taxes	**727,874**	557,006	553,955
Provision for income taxes	**267,564**	216,118	217,704
Net Income	**$ 460,310**	$ 340,888	$ 336,251
Net Income Per Share—Basic	**$ 3.29**	$ 2.38	$ 2.25
Net Income Per Share—Diluted	**$ 3.26**	$ 2.34	$ 2.23
Cash Dividends Paid Per Share:			
Common Stock	**$ 1.00**	$ .920	$ .840
Class B Common Stock	**.905**	.835	.760

The notes to consolidated financial statements are an integral part of these statements.

HERSHEY FOODS CORPORATION

CONSOLIDATED BALANCE SHEETS

December 31,	1999	1998
In thousands of dollars		
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 118,078**	$ 39,024
Accounts receivable—trade	**352,750**	451,324
Inventories	**602,202**	493,249
Deferred income taxes	**80,303**	58,505
Prepaid expenses and other	**126,647**	91,864
Total current assets	**1,279,980**	1,133,966
Property, Plant and Equipment, Net	**1,510,460**	1,648,058
Intangibles Resulting from Business Acquisitions	**450,165**	530,464
Other Assets	**106,047**	91,610
Total assets	**$ 3,346,652**	$ 3,404,098
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 136,567**	$ 156,937
Accrued liabilities	**292,497**	294,415
Accrued income taxes	**72,159**	17,475
Short-term debt	**209,166**	345,908
Current portion of long-term debt	**2,440**	89
Total current liabilities	**712,829**	814,824
Long-term Debt	**878,213**	879,103
Other Long-term Liabilities	**330,938**	346,769
Deferred Income Taxes	**326,045**	321,101
Total liabilities	**2,248,025**	2,361,797
Stockholders' Equity:		
Preferred Stock, shares issued: none in 1999 and 1998	**—**	—
Common Stock, shares issued: 149,506,964 in 1999 and 149,502,964 in 1998	**149,507**	149,503
Class B Common Stock, shares issued: 30,443,908 in 1999 and 30,447,908 in 1998	**30,443**	30,447
Additional paid-in capital	**30,079**	29,995
Unearned ESOP compensation	**(22,354)**	(25,548)
Retained earnings	**2,513,275**	2,189,693
Treasury—Common Stock shares, at cost: 41,491,253 in 1999 and 36,804,157 in 1998	**(1,552,708)**	(1,267,422)
Accumulated other comprehensive loss	**(49,615)**	(64,367)
Total stockholders' equity	**1,098,627**	1,042,301
Total liabilities and stockholders' equity	**$ 3,346,652**	$ 3,404,098

The notes to consolidated financial statements are an integral part of these balance sheets.

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, In thousands of dollars	1999	1998	1997
Cash Flows Provided from (Used by) Operating Activities			
Net income	**$ 460,310**	$ 340,888	$ 336,251
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	**163,308**	158,161	152,750
Deferred income taxes	**(8,336)**	82,241	16,915
Gain on sale of business, net of tax of $78,769	**(165,016)**	—	—
Changes in assets and liabilities, net of effects from business divestiture:			
Accounts receivable—trade	**77,918**	(90,493)	(68,479)
Inventories	**(136,535)**	12,276	(33,538)
Accounts payable	**(8,742)**	10,005	12,967
Other assets and liabilities	**(55,224)**	(124,118)	85,074
Other, net	**—**	745	4,018
Net Cash Provided from Operating Activities	**327,683**	389,705	505,958
Cash Flows Provided from (Used by) Investing Activities			
Capital additions	**(115,448)**	(161,328)	(172,939)
Capitalized software additions	**(25,394)**	(42,859)	(29,100)
Proceeds from divestiture	**450,000**	—	—
Other, net	**13,526**	9,284	21,368
Net Cash Provided from (Used by) Investing Activities	**322,684**	(194,903)	(180,671)
Cash Flows Provided from (Used by) Financing Activities			
Net change in short-term borrowings	**(136,742)**	(36,543)	(217,018)
Long-term borrowings	**1,696**	—	550,000
Repayment of long-term debt	**(393)**	(25,187)	(15,588)
Cash dividends paid	**(136,728)**	(129,044)	(121,546)
Exercise of stock options	**18,878**	19,368	14,397
Incentive plan transactions	**—**	(22,458)	(35,063)
Repurchase of Common Stock	**(318,024)**	(16,151)	(507,654)
Net Cash (Used by) Financing Activities	**(571,313)**	(210,015)	(332,472)
Increase (Decrease) in Cash and Cash Equivalents	**79,054**	(15,213)	(7,185)
Cash and Cash Equivalents as of January 1	**39,024**	54,237	61,422
Cash and Cash Equivalents as of December 31	**$ 118,078**	$ 39,024	$ 54,237
Interest Paid	**$ 77,049**	$ 89,001	$ 64,937
Income Taxes Paid	**218,665**	123,970	181,377

The notes to consolidated financial statements are an integral part of these statements.

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

In thousands of dollars	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Unearned ESOP Compensation	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance as of January 1, 1997	$ —	$ 149,472	$ 30,478	$ 42,432	$ (31,935)	$ 1,763,144	$ (759,695)	$ (32,875)	$ 1,161,021
Comprehensive income (loss)									
Net income						336,251			336,251
Other comprehensive income (loss):									
Foreign currency translation adjustments								(9,368)	(9,368)
Comprehensive income									326,883
Dividends:									
Common Stock, $.84 per share						(98,390)			(98,390)
Class B Common Stock, $.76 per share						(23,156)			(23,156)
Conversion of Class B Common Stock into Common Stock		13	(13)						—
Incentive plan transactions				(879)					(879)
Exercise of stock options				(8,200)			(512)		(8,712)
Employee stock ownership trust transactions				499	3,194				3,693
Repurchase of Common Stock							(507,654)		(507,654)
Balance as of December 31, 1997	—	149,485	30,465	33,852	(28,741)	1,977,849	(1,267,861)	(42,243)	852,806
Comprehensive income (loss)									
Net income						340,888			340,888
Other comprehensive income (loss):									
Foreign currency translation adjustments								(18,073)	(18,073)
Minimum pension liability adjustments, net of tax benefit								(4,051)	(4,051)
Comprehensive income									318,764
Dividends:									
Common Stock, $.92 per share						(103,616)			(103,616)
Class B Common Stock, $.835 per share						(25,428)			(25,428)
Conversion of Class B Common Stock into Common Stock		18	(18)						—
Incentive plan transactions				(985)					(985)
Exercise of stock options				(3,375)			16,590		13,215
Employee stock ownership trust transactions				503	3,193				3,696
Repurchase of Common Stock							(16,151)		(16,151)
Balance as of December 31, 1998	—	149,503	30,447	29,995	(25,548)	2,189,693	(1,267,422)	(64,367)	1,042,301
Comprehensive income (loss)									
Net income						**460,310**			**460,310**
Other comprehensive income (loss):									
Foreign currency translation adjustments								**10,701**	**10,701**
Minimum pension liability adjustments, net of tax benefit								**4,051**	**4,051**
Comprehensive income									**475,062**
Dividends:									
Common Stock, $1.00 per share						**(109,175)**			**(109,175)**
Class B Common Stock, $.905 per share						**(27,553)**			**(27,553)**
Conversion of Class B Common Stock into Common Stock		**4**	**(4)**						**—**
Incentive plan transactions				**2**					**2**
Exercise of stock options				**(458)**			**32,738**		**32,280**
Employee stock ownership trust/benefits transactions				**540**	**3,194**				**3,734**
Repurchase of Common Stock							**(318,024)**		**(318,024)**
Balance as of December 31, 1999	**$—**	**$ 149,507**	**$ 30,443**	**$ 30,079**	**$ (22,354)**	**$ 2,513,275**	**$ (1,552,708)**	**$ (49,615)**	**$ 1,098,627**

The notes to consolidated financial statements are an integral part of these statements.

HERSHEY FOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies employed by the Corporation are discussed below and in other notes to the consolidated financial statements. Certain reclassifications have been made to prior year amounts to conform to the 1999 presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries after elimination of intercompany accounts and transactions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, particularly for accounts receivable and certain current and long-term liabilities.

Revenue Recognition

Sales are recorded at the time products are shipped and risk of loss is transferred.

Cash Equivalents

All highly liquid debt instruments purchased with a maturity of three months or less are classified as cash equivalents.

Commodities Futures Contracts

In connection with the purchasing of cocoa, sugar, corn sweeteners, natural gas and certain dairy products for anticipated manufacturing requirements, the Corporation enters into commodities futures contracts as deemed appropriate to reduce the effect of price fluctuations. In accordance with Statement of Financial Accounting Standards No. 80, Accounting for Futures Contracts, these futures contracts meet the hedge criteria and are accounted for as hedges. Accordingly, gains and losses are deferred and recognized in cost of sales as part of the product cost. Gains and losses on futures designated as hedges of anticipated purchases which are no longer likely to occur are recorded in income currently.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of buildings, machinery and equipment is computed using the straight-line method over the estimated useful lives.

Intangibles Resulting from Business Acquisitions

Intangible assets resulting from business acquisitions principally consist of the excess of the acquisition cost over the fair value of the net assets of businesses acquired (goodwill). Goodwill was $431.7 million and $508.0 million as of December 31, 1999 and 1998, respectively. The decrease in goodwill primarily reflected the divestiture of the Corporation's pasta business in January 1999.

Goodwill is amortized on a straight-line basis over 40 years. Other intangible assets are amortized on a straight-line basis over the estimated useful lives. The Corporation periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of goodwill may not be recoverable. When factors indicate that goodwill should be evaluated for possible impairment, the Corporation uses an estimate of the acquired business' undiscounted future cash flows compared to the related carrying amount of net assets, including goodwill, to determine if an impairment loss should be recognized.

Accumulated amortization of intangible assets resulting from business acquisitions was $121.6 million and $132.3 million as of December 31, 1999 and 1998, respectively. The decrease in accumulated amortization reflected the divestiture of the Corporation's pasta business in January 1999.

Comprehensive Income

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (SFAS No. 130). SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components. SFAS No. 130 requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position.

Results of operations for foreign entities are translated using the average exchange rates during the period. For foreign entities, assets and liabilities are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Resulting translation adjustments are recorded as a component of other comprehensive income (loss), "Foreign Currency Translation Adjustments."

A minimum pension liability adjustment is required when the actuarial present value of accumulated pension plan benefits exceeds plan assets and accrued pension liabilities, less allowable intangible assets. Minimum pension liability adjustments, net of income taxes, are recorded as a component of other comprehensive income (loss), "Minimum Pension Liability Adjustments, net of tax benefit."

Comprehensive income (loss) is reported on the Consolidated Statements of Stockholders' Equity and accumulated other comprehensive (loss) is reported on the Consolidated Balance Sheets.

Foreign Exchange Contracts

The Corporation enters into foreign exchange forward contracts to hedge transactions primarily related to firm commitments to purchase equipment, certain raw materials and finished goods denominated in foreign currencies, and to hedge payment of intercompany transactions with its non-domestic subsidiaries. These contracts reduce currency risk from exchange rate movements.

Foreign exchange forward contracts are intended and effective as hedges of firm, identifiable, foreign currency commitments. Accordingly, gains and losses are deferred and accounted for as part of the underlying transactions. Gains and losses on terminated derivatives designated as hedges are accounted for as part of the originally hedged transaction. Gains and losses on derivatives designated as hedges of items which mature, are sold or terminated, are recorded currently in income. In entering into these contracts the Corporation has assumed the risk which might arise from the possible inability of counterparties to meet the terms of their contracts. The Corporation does not expect any losses as a result of counterparty defaults.

License Agreements

The Corporation has entered into license agreements under which it has access to certain trademarks and proprietary technology, and manufactures and/or markets and distributes certain products. The rights under these agreements are extendible on a long-term basis at the Corporation's option subject to certain conditions, including minimum sales levels, which the Corporation has met. License fees and royalties, payable under the terms of the agreements, are expensed as incurred.

Research and Development

The Corporation expenses research and development costs as incurred. Research and development expense was $26.7 million, $28.6 million and $27.5 million in 1999, 1998 and 1997, respectively.

Advertising

The Corporation expenses advertising costs as incurred. Advertising expense was $164.9 million, $187.5 million and $202.4 million in 1999, 1998 and 1997, respectively. Prepaid advertising as of December 31, 1999 and 1998, was $5.8 million and $12.1 million, respectively.

Computer Software

In 1997, the Corporation began capitalizing certain costs of computer software developed or obtained for internal use. The amount capitalized as of December 31, 1999 and 1998, was $82.2 million and $69.3 million, respectively. If such costs were capitalized in prior years, the effect would not have been material. Software assets are classified as other non-current assets and are amortized over periods up to five years. Accumulated amortization of capitalized software was $15.1 million and $2.8 million as of December 31, 1999 and 1998, respectively.

2. DIVESTITURE

In January 1999, the Corporation completed the sale of a 94% majority interest of its U.S. pasta business to New World Pasta, LLC. The transaction included the *American Beauty, Ideal by San Giorgio, Light 'n Fluffy, Mrs. Weiss, P&R, Ronzoni, San Giorgio* and *Skinner* pasta brands, along with six manufacturing plants. In the first quarter of 1999, the Corporation received cash proceeds of $450.0 million, retained a 6% minority interest and recorded a gain of approximately $243.8 million before tax, $165.0 million or $1.17 per share—diluted after tax, as a result of the transaction. Net sales for the pasta business were $29.3 million, $373.1 million, and $386.2 million for 1999, 1998 and 1997, respectively. Net income for the pasta business was $1.5 million, $25.9 million and $25.2 million for 1999, 1998 and 1997, respectively.

3. RENTAL AND LEASE COMMITMENTS

Rent expense was $45.5 million, $39.6 million and $31.8 million for 1999, 1998 and 1997, respectively. Rent expense pertains to all operating leases, which were principally related to certain administrative buildings, distribution facilities and transportation equipment. In July 1999, the Corporation entered into an operating lease agreement for an amount not to exceed $65 million for the purpose of financing construction costs of a warehouse and distribution facility located on land owned by the Corporation near Hershey, Pennsylvania. Under the agreement, the lessor pays for the construction costs and thereafter leases the facility to the Corporation. The lease term is six years, including the construction period. The lease may be extended at the Corporation's option for up to four renewal periods of five years each. The lease provides for a substantial residual guarantee and includes an option to purchase the facility at original cost. The first phase of the distribution center is expected to open in the second quarter of 2000. Future minimum rental payments under non-cancelable

operating leases with a remaining term in excess of one year as of December 31, 1999, were: 2000, $18.5 million; 2001, $19.7 million; 2002, $18.9 million; 2003, $18.3 million; 2004, $18.1 million; 2005 and beyond, $42.9 million.

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS No. 133 is effective for fiscal years beginning after June 15, 2000, but may be implemented as of the beginning of any fiscal quarter after issuance. Retroactive application is not permitted. SFAS No. 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997. Changes in accounting methods will be required for derivative instruments utilized by the Corporation to hedge commodity price, foreign currency exchange rate and interest rate risks. Such derivatives currently include, but are not limited to, commodity futures contracts, foreign exchange forward contracts, and interest rate swaps and forward agreements.

The Corporation anticipates the adoption of SFAS No. 133 as of January 1, 2001. As of December 31, 1999, net deferred losses on derivatives of approximately $38.2 million after tax would have been reported as a component of other comprehensive loss and classified as accumulated other comprehensive loss on the consolidated balance sheets upon adoption of SFAS No. 133. The adoption of SFAS No. 133 is not expected to have a material impact on the Corporation's results of operations.

5. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximated fair value as of December 31, 1999 and 1998, because of the relatively short maturity of these instruments. The carrying value of long-term debt, including the current portion, was $880.7 million as of December 31, 1999, compared to a fair value of $856.9 million based on quoted market prices for the same or similar debt issues. The carrying value of long-term debt, including the current portion, was $879.2 million as of December 31, 1998, compared to a fair value of approximately $1.0 billion.

As of December 31, 1999, the Corporation had foreign exchange forward contracts maturing in 2000 and 2001 to purchase $18.0 million in foreign currency, primarily euros and British sterling, and to sell $31.2 million in foreign currency, primarily Canadian dollars and Japanese yen, at contracted forward rates.

As of December 31, 1998, the Corporation had foreign exchange forward contracts maturing in 1999 and 2000 to purchase $10.5 million in foreign currency, primarily British sterling and Dutch gilders, and to sell $9.6 million in Japanese yen at contracted forward rates.

The fair value of foreign exchange forward contracts is estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences. As of December 31, 1999 and 1998, the fair value of foreign exchange forward contracts approximated the contract value. The Corporation does not hold or issue financial instruments for trading purposes.

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements. In October 1999, the Corporation entered into an interest rate swap agreement to effectively convert $200 million of 6.7% Notes Due 2005 (Notes) to variable rate debt. The interest rate swap agreement is cancelable at the sole discretion of the counterparty effective April 2, 2001. At the same time, the Corporation entered into forward interest rate agreements to fix the interest rate on the Notes at 5.8% through April 2, 2001. Subsequently, if the counterparty chooses not to cancel the agreement, the interest rate on the Notes would be variable based on the London InterBank Offered Rate (LIBOR) until expiration on October 1, 2005.

As of December 31, 1998, the Corporation had agreements outstanding with an aggregate notional amount of $75.0 million maturing in September 1999 to effectively convert a portion of its floating rate commercial paper borrowings to fixed rate debt. As of December 31, 1998, interest rates payable were at a weighted average fixed rate of 6.3% and interest rates receivable averaging 5.2% were based on 30-day commercial paper composite rates. Any interest rate differential on interest rate swaps and forward agreements is recognized as an adjustment to interest expense over the term of each agreement. The Corporation's risk related to interest rate swap and forward agreements is limited to the cost of replacing such agreements at prevailing market rates.

6. INTEREST EXPENSE

Interest expense, net consisted of the following:

For the years ended December 31,	1999	1998	1997
In thousands of dollars			
Long-term debt and lease obligations	**$66,323**	$67,538	$48,737
Short-term debt	**12,191**	23,657	32,284
Capitalized interest	**(1,214)**	(2,547)	(1,883)
Interest expense, gross	**77,300**	88,648	79,138
Interest income	**(3,029)**	(2,991)	(2,883)
Interest expense, net	**$74,271**	$85,657	$76,255

7. SHORT-TERM DEBT

Generally, the Corporation's short-term borrowings are in the form of commercial paper or bank loans with an original maturity of three months or less. As of December 31, 1999, the Corporation maintained a committed credit facility agreement with a syndicate of banks in the amount of $500.0 million which could be borrowed directly or used to support the issuance of commercial paper. The Corporation has the option to increase the credit facility by $1.0 billion with the concurrence of the banks. In December 1999, the short-term credit facility agreement was renewed for a total of $200 million and the long-term committed credit facility agreement remained in effect for $300 million, expiring in December 2002. The credit facilities may be used to fund general corporate requirements, to support commercial paper borrowings and, in certain instances, to finance future business acquisitions.

The Corporation also maintains lines of credit arrangements with domestic and international commercial banks, under which it could borrow in various currencies up to approximately $25.0 million and $23.0 million as of December 31, 1999 and 1998, respectively, at the lending banks' prime commercial interest rates or lower.

The Corporation had combined domestic commercial paper borrowings, and short-term foreign bank loans against its credit facilities and lines of credit of $209.2 million as of December 31, 1999, and

$345.9 million as of December 31, 1998. The weighted average interest rates on short-term borrowings outstanding as of December 31, 1999 and 1998, were 5.8% and 5.2%, respectively.

The credit facilities and lines of credit were supported by commitment fee arrangements. The average fee during 1999 was less than .1% per annum of the commitment. The Corporation's credit facility agreements contain a financial covenant which requires that a specified interest and fixed charge ratio be maintained. These agreements are also subject to other representations and covenants which do not materially restrict the Corporation's activities. The Corporation is in compliance with all covenants included in the credit facility agreements. There were no significant compensating balance agreements which legally restricted these funds.

As a result of maintaining a consolidated cash management system, the Corporation maintains overdraft positions at certain banks. Such overdrafts, which were included in accounts payable, were $28.3 million and $57.0 million as of December 31, 1999 and 1998, respectively.

8. LONG-TERM DEBT

Long-term debt consisted of the following:

December 31,	**1999**	**1998**
In thousands of dollars		
6.7% Notes due 2005	**$200,000**	$200,000
6.95% Notes due 2007	**150,000**	150,000
6.95% Notes due 2012	**150,000**	150,000
8.8% Debentures due 2021	**100,000**	100,000
7.2% Debentures due 2027	**250,000**	250,000
Other obligations, net of unamortized debt discount	**30,653**	29,192
Total long-term debt	**880,653**	879,192
Less—current portion	**2,440**	89
Long-term portion	**$878,213**	$879,103

In October 1999, the Corporation entered into an interest rate swap agreement to effectively convert $200 million of 6.7% Notes due 2005 to variable rate debt. The interest rate swap agreement is cancelable at the sole discretion of the counterparty effective April 2, 2001. At the same time, the Corporation entered into forward interest rate agreements to fix the interest rate on the Notes at 5.8% through April 2, 2001. Subsequently, if the counterparty chooses not to cancel the agreement, the interest rate on the Notes would be variable based on LIBOR until expiration on October 1, 2005.

Aggregate annual maturities during the next five years are: 2000, $2.4 million; 2001, $.7 million; 2002, $.8 million; 2003, $17.1 million; and $.1 million in 2004. The Corporation's debt is principally unsecured and of equal priority. None of the debt is convertible into stock of the Corporation. The Corporation is in compliance with all covenants included in the related debt agreements.

9. INCOME TAXES

The provision for income taxes was as follows:

For the years ended December 31,	1999	1998	1997
In thousands of dollars			
Current:			
Federal	**$256,054**	$119,706	$177,145
State	**15,998**	10,498	20,252
Foreign	**3,848**	3,673	3,392
Current provision for income taxes	**275,900**	133,877	200,789
Deferred:			
Federal	**(23,271)**	73,422	9,370
State	**16,280**	10,568	5,103
Foreign	**(1,345)**	(1,749)	2,442
Deferred provision for income taxes	**(8,336)**	82,241	16,915
Total provision for income taxes	**$267,564**	$216,118	$217,704

The tax effects of the significant temporary differences which comprised the deferred tax assets and liabilities were as follows:

December 31,	1999	1998
In thousands of dollars		
Deferred tax assets:		
Post-retirement benefit obligations	**$ 84,305**	$ 87,954
Accrued expenses and other reserves	**103,232**	96,843
Accrued trade promotion reserves	**34,708**	28,118
Other	**23,054**	21,530
Total deferred tax assets	**245,299**	234,445
Deferred tax liabilities:		
Depreciation	**289,369**	308,074
Other	**201,672**	188,967
Total deferred tax liabilities	**491,041**	497,041
Net deferred tax liabilities	**$245,742**	$262,596
Included in:		
Current deferred tax assets, net	**$ 80,303**	$ 58,505
Non-current deferred tax liabilities, net	**326,045**	321,101
Net deferred tax liabilities	**$245,742**	$262,596

The following table reconciles the Federal statutory income tax rate with the Corporation's effective income tax rate:

For the years ended December 31,	1999	1998	1997
Federal statutory income tax rate	**35.0%**	35.0%	35.0%
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	**2.3**	3.0	3.4
Non-deductible acquisition costs	**.6**	.9	.9
Utilization of capital loss carryforwards	**(.9)**	—	—
Other, net	**(.2)**	(.1)	—
Effective income tax rate	**36.8%**	38.8%	39.3%

In January 1999, the Corporation received a Notice of Proposed Deficiency from the Internal Revenue Service (IRS) related to the years 1989 through 1996. The most significant issue pertains to the Corporate Owned Life Insurance (COLI) program which was implemented by the Corporation in 1989. The IRS proposed an assessment for the disallowance of interest expense deductions associated with the underlying life insurance policies. The total impact of the disallowance was approximately $60.4 million, including interest as of December 31, 1999. The Corporation may be subject to additional assessments for federal and state tax and interest payments for years subsequent to 1996. The Corporation believes that it has fully complied with the tax law as it relates to its COLI program. The Corporation filed a protest of the proposed deficiency with the Appeals section of the IRS in April 1999 and continues to vigorously defend its position on this matter.

10. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

The Corporation's policy is to fund domestic pension liabilities in accordance with the minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 and Federal income tax laws, respectively. Non-domestic pension liabilities are funded in accordance with applicable local laws and regulations. Plan assets are invested in a broadly diversified portfolio consisting primarily of domestic and international common stocks and fixed income securities. Other benefits include health care and life insurance provided by the Corporation under two post-retirement benefit plans.

Effective December 31, 1998, the Corporation adopted Statement of Financial Accounting Standards No. 132, Employers' Disclosures about Pension and Other Post-Retirement Benefits (SFAS No. 132). The provisions of SFAS No. 132 revise employers' disclosures about pension and other post-retirement benefit plans. It does not change the measurement or recognition of these plans.

A summary of the changes in benefit obligations and plan assets as of December 31, 1999 and 1998 is presented below:

December 31,	Pension Benefits 1999	Pension Benefits 1998	Other Benefits 1999	Other Benefits 1998
In thousands of dollars				
Change in benefits obligation				
Benefits obligation at beginning of year	**$ 692,422**	$602,081	**$ 251,040**	$ 206,695
Service cost	**31,050**	27,621	**3,803**	4,452
Interest cost	**41,781**	41,855	**13,813**	13,524
Amendments	**16,404**	(440)	**(11,092)**	(17,427)
Actuarial (gain) loss	**(93,537)**	72,944	**(32,285)**	54,698
Divestiture/Acquisition	**(8,648)**	—	**—**	(1,799)
Other	**3,185**	(2,440)	**222**	(228)
Benefits paid	**(54,947)**	(49,199)	**(10,991)**	(8,875)
Benefits obligation at end of year	**627,710**	692,422	**214,510**	251,040
Change in plan assets				
Fair value of plan assets at beginning of year	**628,041**	566,810	**—**	—
Actual return on plan assets	**74,511**	91,338	**—**	—
Divestiture	**(5,993)**	—	**—**	—
Employer contribution	**6,253**	20,634	**10,991**	8,875
Other	**2,834**	(1,542)	**—**	—
Benefits paid	**(54,947)**	(49,199)	**(10,991)**	(8,875)
Fair value of plan assets at end of year	**650,699**	628,041	**—**	—
Funded status	**22,989**	(64,381)	**(214,510)**	(251,040)
Unrecognized transition obligation	**(308)**	(91)	**—**	—
Unrecognized prior service cost	**49,046**	35,854	**(24,842)**	(33,202)
Unrecognized net actuarial (gain) loss	**(105,839)**	6,164	**26,085**	59,589
Intangible asset	**—**	(1,261)	**—**	—
Accumulated other comprehensive income	**—**	(6,750)	**—**	—
Prior service cost recognized due to curtailment	**—**	—	**17,034**	12,991
Unrecognized prior service cost due to amendment	**—**	—	**(11,105)**	(6,924)
(Accrued) benefits cost	**$ (34,112)**	$ (30,465)	**$(207,338)**	$(218,586)
Weighted-average assumptions				
Discount rate	**7.5%**	6.4%	**7.5%**	6.4%
Expected long-term rate of return on assets	**9.5**	9.5	**N/A**	N/A
Rate of increase in compensation levels	**4.8**	4.8	**N/A**	N/A

For measurement purposes, a 6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000 and future years.

As of December 31, 1999, for pension plans with accumulated benefit obligations in excess of plan assets, the related projected benefit obligation and accumulated benefit obligation were $36.4 million and $35.0 million, respectively, with no plan assets.

As of December 31, 1998, for pension plans with accumulated benefit obligations in excess of plan assets, the related projected benefit obligation, accumulated benefit obligation and the fair value of plan assets were $81.1 million, $66.9 million and $22.7 million, respectively.

A minimum pension liability adjustment is required when the actuarial present value of accumulated plan benefits exceeds plan assets and accrued pension liabilities. In 1999, accrued pension

liabilities exceeded the actuarial present value of accumulated plan benefits because the discount rate used to determine the present value of accumulated benefits increased from 6.4% to 7.5% and a plan amendment shifted benefits from an unfunded pension plan to a funded plan. Accordingly, a minimum pension liability adjustment of $4.1 million, initially recorded in other comprehensive income in 1998, was reversed in 1999, net of deferred income taxes of $2.7 million.

A summary of the components of net periodic benefits cost for the years ended December 31, 1999 and 1998 is presented below:

	Pension Benefits		Other Benefits	
For the years ended December 31,	**1999**	**1998**	**1999**	**1998**
In thousands of dollars				
Components of net periodic benefits cost				
Service cost	**$ 31,050**	$ 27,621	**$ 3,803**	$ 4,452
Interest cost	**41,781**	41,855	**13,813**	13,524
Expected return on plan assets	**(57,836)**	(53,399)	**—**	—
Amortization of prior service cost	**2,956**	2,941	**(2,293)**	(2,986)
Recognized net actuarial loss	**341**	717	**1,042**	—
Other	**—**	—	**54**	9
Corporate sponsored plans	**18,292**	19,735	**16,419**	14,999
Multi-employer plans	**698**	1,571	**—**	—
Administrative expenses	**287**	796	**—**	—
Net periodic benefits cost	**$ 19,277**	$ 22,102	**$ 16,419**	$ 14,999

The Corporation has two post-retirement benefit plans. The health care plan is contributory, with participants' contributions adjusted annually, and the life insurance plan is non-contributory. During the first quarter of 1999, for all eligible employees under age 45, the Corporation provided annual contributions into the Employee Savings Stock Investment and Ownership Plan (ESSIOP) instead of providing coverage under the current retiree medical plan. This change resulted in the immediate recognition of a $15.4 million pre-tax gain which is not included above as a component of net periodic benefits costs. The changes applied primarily to U.S. hourly employees working in Pennsylvania.

Effective December 1998, all U.S. full-time salaried employees, and all non-union hourly plant employees working outside Hershey, PA under age 45 were eligible for the ESSIOP contributions. This change resulted in the immediate recognition of a $13.0 million pre-tax gain which is not included above as a component of net periodic benefits cost in 1998.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	1 Percentage Point Increase	1 Percentage Point (Decrease)
In thousands of dollars		
Effect on total service and interest cost components	$ 954	$ (829)
Effect on post-retirement benefit obligation	11,152	(9,999)

11. EMPLOYEE STOCK OWNERSHIP TRUST

The Corporation's employee stock ownership trust (ESOP) serves as the primary vehicle for contributions to its existing ESSIOP for participating domestic salaried and hourly employees. The ESOP was funded by a 15-year 7.75% loan of $47.9 million from the Corporation. During 1999 and 1998, the ESOP received a combination of dividends on unallocated shares and contributions from the

Corporation equal to the amount required to meet its principal and interest payments under the loan. Simultaneously, the ESOP allocated to participants 159,176 shares of Common Stock each year. As of December 31, 1999, the ESOP held 980,992 allocated shares and 1,114,224 unallocated shares. All ESOP shares are considered outstanding for income per share computations.

The Corporation recognized net compensation expense equal to the shares allocated multiplied by the original cost of $20 1/16 per share less dividends received by the ESOP on unallocated shares. Compensation expense related to the ESOP for 1999, 1998 and 1997 was $1.6 million, $1.0 million, and $1.4 million, respectively. Dividends paid on unallocated ESOP shares were $1.2 million in both 1999 and 1998 and $1.3 million in 1997. The unearned ESOP compensation balance in stockholders' equity represented deferred compensation expense to be recognized by the Corporation in future years as additional shares are allocated to participants.

12. CAPITAL STOCK AND NET INCOME PER SHARE

As of December 31, 1999, the Corporation had 530,000,000 authorized shares of capital stock. Of this total, 450,000,000 shares were designated as Common Stock, 75,000,000 shares as Class B Common Stock (Class B Stock), and 5,000,000 shares as Preferred Stock, each class having a par value of one dollar per share. As of December 31, 1999 a combined total of 179,950,872 shares of both classes of common stock had been issued of which 138,459,619 shares were outstanding. No shares of the Preferred Stock were issued or outstanding during the three-year period ended December 31, 1999.

Holders of the Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the Common Stock having one vote per share and the Class B Stock having ten votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 1999, 1998 and 1997, a total of 4,000 shares, 18,000 shares, and 13,000 shares, respectively, of Class B Stock were converted into Common Stock.

Hershey Trust Company, as Trustee for the benefit of Milton Hershey School (Milton Hershey School Trust), as institutional fiduciary for estates and trusts unrelated to Milton Hershey School, and as direct owner of investment shares, held a total of 12,929,073 shares of the Common Stock, and as Trustee for the benefit of Milton Hershey School, held 30,306,006 shares of the Class B Stock as of December 31, 1999, and was entitled to cast approximately 77% of the total votes of both classes of the Corporation's common stock. The Milton Hershey School Trust must approve the issuance of shares of Common Stock or any other action which would result in the Milton Hershey School Trust not continuing to have voting control of the Corporation.

During 1999, 5,478,379 shares of Common Stock were repurchased for $318.0 million, including 1,579,779 shares of the Corporation's Common Stock purchased from the Milton Hershey School Trust for $100.0 million. A total of 15,339,498 shares of Common Stock have been repurchased for approximately $605.6 million under share repurchase programs which were approved by the Corporation's Board of Director's in 1993, 1996 and 1999. Of the shares repurchased, 528,000 shares were retired, 1,320,781 shares were reissued to satisfy stock options obligations, Supplemental Retirement Contributions and ESOP obligations and the remaining 13,490,717 shares were held as Treasury Stock as of December 31, 1999. In August 1997, the Corporation purchased 9,900,990 shares of its Common Stock to be held as Treasury Stock from the Milton Hershey School Trust for $500.0 million and in August 1995, 18,099,546 shares were purchased from the Milton Hershey School Trust for $500.0 million. A total of 41,491,253 shares were held as Treasury Stock as of December 31, 1999.

Basic and Diluted Earnings per Share were computed based on the weighted average number of shares of the Common Stock and the Class B Stock outstanding as follows:

For the years ended December 31,	1999	1998	1997
In thousands except per share amounts			
Net income	**$460,310**	$340,888	$336,251
Weighted average shares—basic	**140,031**	143,446	149,174
Effect of dilutive securities:			
Employee stock options	**1,260**	2,008	1,727
Performance and restricted stock units	**9**	109	115
Weighted average shares—diluted	**141,300**	145,563	151,016
Net income per share—basic	**$ 3.29**	$ 2.38	$ 2.25
Net income per share—diluted	**$ 3.26**	$ 2.34	$ 2.23

For the year ended December 31, 1999, 1.8 million stock options were not included in the diluted earnings per share calculation because the exercise price was higher than the average market price of the Common Stock for the year and therefore, the effect would have been antidilutive.

13. STOCK COMPENSATION PLAN

The long-term portion of the Key Employee Incentive Plan (Incentive Plan), provides for grants of stock-based compensation awards to senior executives and key employees of one or more of the following: non-qualified stock options (fixed stock options), performance stock units, stock appreciation rights and restricted stock units. The Incentive Plan also provides for the deferral of performance stock unit awards by participants. As of December 31, 1999, 15.3 million shares were authorized for grants under the long-term portion of the Incentive Plan.

In 1996, the Corporation's Board of Directors approved a world-wide, broad-based employee stock option program, called HSY Growth. HSY Growth provides all eligible employees with a one-time grant of 100 non-qualified stock options. Under HSY Growth, over 1.2 million options were granted on January 7, 1997.

The Corporation applies Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations, in accounting for the Incentive Plan and HSY Growth. Accordingly, no compensation cost has been recognized for its fixed stock option grants. Had compensation cost for the Corporation's stock-based compensation plans been determined based on the fair value at the grant dates for awards under the Incentive Plan and HSY Growth consistent with the method of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, the Corporation's net income and net income per share would have been reduced to the pro forma amounts indicated below:

For the years ended December 31,		1999	1998	1997
In thousands of dollars except per share amounts				
Net income	As reported	**$460,310**	$340,888	$336,251
	Pro forma	**449,986**	329,621	330,710
Net income per share—Basic	As reported	**$ 3.29**	$ 2.38	$ 2.25
	Pro forma	**3.21**	2.30	2.22
Net income per share—Diluted	As reported	**$ 3.26**	$ 2.34	$ 2.23
	Pro forma	**3.18**	2.26	2.19

The fair value of each option grant is estimated on the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1999, 1998 and 1997,

respectively: dividend yields of 1.4%, 1.6% and 1.9%, expected volatility of 23%, 21% and 20%, risk-free interest rates of 4.9%, 5.9% and 6.2%, and expected lives of 6.5 years, 6.5 years and 5.7 years.

Fixed Stock Options

The exercise price of each option equals the market price of the Corporation's Common Stock on the date of grant. Under the Incentive Plan, options are granted in January and generally vest at the end of the second year and have a maximum term of ten years. Options granted under the HSY Growth program vest at the end of the fifth year and have a term of ten years.

A summary of the status of the Corporation's fixed stock options as of December 31, 1999, 1998, and 1997, and changes during the years ending on those dates is presented below:

	1999		1998		1997	
Fixed Options	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	**7,665,270**	**$38.91**	6,713,920	$31.73	5,902,220	$27.40
Granted	**197,450**	**$59.24**	1,739,050	$61.22	1,485,250	$44.64
Exercised	**(701,596)**	**$26.80**	(751,600)	$25.78	(656,350)	$21.94
Forfeited	**(255,200)**	**$52.16**	(36,100)	$52.61	(17,200)	$33.06
Outstanding at end of year	**6,905,924**	**$40.23**	7,665,270	$38.91	6,713,920	$31.73
Options exercisable at year-end	**4,015,624**	**$29.78**	4,480,670	$28.45	3,013,670	$24.38
Weighted-average fair value of options granted during the year (per share)	**$ 17.23**		$ 18.30		$ 11.66	

The following table summarizes information about fixed stock options outstanding as of December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number Outstanding as of 12/31/99**	**Weighted-Average Remaining Contractual Life in Years**	**Weighted-Average Exercise Price**	**Number Exercisable as of 12/31/99**	**Weighted-Average Exercise Price**
$17 11/16-26 1/2	**1,769,674**	3.6	$23.86	**1,769,674**	$23.86
$33 1/16-44 1/2	**3,324,050**	6.4	$37.64	**2,227,650**	$34.26
$49 1/8-63 11/16	**1,812,200**	8.1	$60.96	**18,300**	$56.25
$17 11/16-63 11/16	**6,905,924**	6.1	$40.23	**4,015,624**	$29.78

Performance Stock Units

Under the long-term portion of the Incentive Plan, each January the Corporation grants selected executives and other key employees performance stock units whose vesting is contingent upon the achievement of certain performance objectives. If at the end of three-year performance cycles, targets for financial measures of earnings per share, economic value added and free cash flow are met, the full number of shares are awarded to the participants. The performance scores can range from 0% to 150% of the targeted amounts. The compensation amount (credited to) charged against income for the performance-based plan was $(1.9) million, $6.6 million and $9.1 million for 1999, 1998, and 1997, respectively. The compensation credit in 1999 resulted from a partial achievement of the current year

cycle objectives, expectation of partially achieving the target objectives for the 2000 cycle and the lower stock price. The compensation cost associated with the long-term portion of the Incentive Plan is recognized ratably over the three-year term based on the year-end market value of the stock. Performance stock units and restricted stock units granted for potential future distribution were as follows:

For the years ended December 31,	1999	1998	1997
Shares granted	**48,550**	48,150	95,250
Weighted-average fair value at date of grant	**$59.48**	$61.54	$45.17

Deferred performance stock units, deferred directors' fees and accumulated dividend amounts totaled 383,366 shares as of December 31, 1999.

No stock appreciation rights were outstanding as of December 31, 1999.

14. SUPPLEMENTAL BALANCE SHEET INFORMATION

Accounts Receivable—Trade

In the normal course of business, the Corporation extends credit to customers which satisfy pre-defined credit criteria. The Corporation believes that it has little concentration of credit risk due to the diversity of its customer base. Receivables, as shown on the consolidated balance sheets, were net of allowances and anticipated discounts of $16.9 million and $19.9 million as of December 31, 1999 and 1998, respectively.

Inventories

The Corporation values the majority of its inventories under the last-in, first-out (LIFO) method and the remaining inventories at the lower of first-in, first-out (FIFO) cost or market. LIFO cost of inventories valued using the LIFO method was $469.2 million and $342.9 million as of December 31, 1999 and 1998, respectively, and all inventories were stated at amounts that did not exceed realizable values. Total inventories were as follows:

December 31,	1999	1998
In thousands of dollars		
Raw materials	**$270,711**	$209,963
Goods in process	**49,412**	44,336
Finished goods	**365,575**	322,125
Inventories at FIFO	**685,698**	576,424
Adjustment to LIFO	**(83,496)**	(83,175)
Total inventories	**$602,202**	$493,249

Property, Plant and Equipment

Property, plant and equipment balances included construction in progress of $76.6 million and $96.6 million as of December 31, 1999 and 1998, respectively. Major classes of property, plant and equipment were as follows:

December 31,	1999	1998
In thousands of dollars		
Land	**$ 50,830**	$ 30,871
Buildings	**484,768**	541,181
Machinery and equipment	**2,036,670**	2,130,735
Property, plant and equipment, gross	**2,572,268**	2,702,787
Accumulated depreciation	**(1,061,808)**	(1,054,729)
Property, plant and equipment, net	**$ 1,510,460**	$ 1,648,058

Accrued Liabilities

Accrued liabilities were as follows:

December 31,	1999	1998
In thousands of dollars		
Payroll, compensation and benefits	**$ 98,527**	$ 87,666
Advertising and promotion	**71,233**	67,916
Other	**122,737**	138,833
Total accrued liabilities	**$292,497**	$294,415

Other Long-term Liabilities

Other long-term liabilities were as follows:

December 31,	1999	1998
In thousands of dollars		
Accrued post-retirement benefits	**$194,563**	$206,345
Other	**136,375**	140,424
Total other long-term liabilities	**$330,938**	$346,769

15. SEGMENT INFORMATION

The Corporation operates in a single consumer foods line of business, encompassing the manufacture, distribution and sale of confectionery and grocery products. Consolidated net sales represented primarily sales of confectionery products. The Corporation's principal operations and markets are located in the United States. The Corporation also manufactures, markets, sells and distributes confectionery and grocery products in Canada and Mexico, imports and/or markets selected confectionery products in Japan, the Philippines, Korea and China, and markets confectionery products in over 90 countries worldwide.

Net sales and long-lived assets of businesses outside of the United States were not significant. Sales to Wal-Mart Stores, Inc. and Subsidiaries exceeded 10% of total net sales and amounted to approximately $605.3 million, $619.1 million and $529.6 million in 1999, 1998 and 1997, respectively.

16. QUARTERLY DATA (Unaudited)

Summary quarterly results were as follows:

Year 1999	First	Second	Third	Fourth
In thousands of dollars except per share amounts				
Net sales	**$945,152**	**$853,239**	**$1,066,695**	**$1,105,838**
Gross profit	**382,988**	**340,443**	**432,653**	**460,116**
Net income	**224,670**[a]	**50,055**	**87,578**	**98,007**
Net income per share—Basic[b]	**1.58**	**.36**	**.63**	**.71**
Net income per share—Diluted[b]	**1.57**	**.35**	**.62**	**.70**

Year 1998	First	Second	Third	Fourth
In thousands of dollars except per share amounts				
Net sales	$1,098,076	$ 880,399	$ 1,217,237	$ 1,239,903
Gross profit	445,736	357,684	510,632	496,506
Net income	75,433	47,965	107,533	109,957
Net income per share—Basic	.53	.33	.75	.77
Net income per share—Diluted[b]	.52	.33	.74	.76

(a) Net income for the first quarter and year 1999 included an after-tax gain on the sale of the Corporation's pasta business of $165.0 million. Net income per share was similarly impacted.

(b) Quarterly income per share amounts do not total to the annual amounts due to changes in weighted average shares outstanding during the year.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Hershey Foods Corporation is responsible for the financial statements and other financial information contained in this report. The Corporation believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

The Corporation maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. The Corporation believes its system provides an appropriate balance in this regard. The Corporation maintains an Internal Audit Department which reviews the adequacy and tests the application of internal accounting controls.

The financial statements have been audited by Arthur Andersen LLP, independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 27, 1999. Their report expresses an opinion that the Corporation's financial statements are fairly stated in conformity with generally accepted accounting principles, and they have indicated to us that their audit was performed in accordance with generally accepted auditing standards which are designed to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The Audit Committee of the Board of Directors of the Corporation, consisting solely of non-management directors, meets regularly with the independent public accountants, internal auditors and management to discuss, among other things, the audit scopes and results. Arthur Andersen LLP and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors
of Hershey Foods Corporation:

We have audited the accompanying consolidated balance sheets of Hershey Foods Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 1999, appearing on pages A-11 through A-30. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

New York, New York
January 28, 2000

HERSHEY FOODS CORPORATION

ELEVEN-YEAR CONSOLIDATED FINANCIAL SUMMARY

All dollar and share amounts in thousands except market price and per share statistics

	10-Year Compound Growth Rate	1999	1998	1997
Summary of Operations				
Net Sales	5.1 %	**$3,970,924**	4,435,615	4,302,236
Cost of Sales	4.9 %	**$2,354,724**	2,625,057	2,488,896
Selling, Marketing and Administrative	4.9 %	**$1,057,840**	1,167,895	1,183,130
Non-recurring Credits/(Charges)(o)		**$ 243,785**	—	—
Interest Expense, Net	13.8 %	**$ 74,271**	85,657	76,255
Provision for Income Taxes	8.5 %	**$ 267,564**	216,118	217,704
Income from Continuing Operations Before Accounting Changes	10.4 %	**$ 460,310**	340,888	336,251
Net Cumulative Effect of Accounting Changes		**$ —**	—	—
Net Income	10.4 %	**$ 460,310**	340,888	336,251
Income Per Share:(a)				
From Continuing Operations Before Accounting Changes				
—Basic	13.2 %	**$ 3.29(i)**	2.38	2.25
—Diluted	13.1 %	**$ 3.26**	2.34	2.23
Net Cumulative Effect of Accounting Changes				
—Basic and Diluted		**$ —**	—	—
Net Income—Basic	13.2 %	**$ 3.29(i)**	2.38	2.25
Net Income—Diluted	13.1 %	**$ 3.26**	2.34	2.23
Weighted Average Shares Outstanding—Basic(a)		**140,031**	143,446	149,174
Weighted Average Shares Outstanding—Diluted(a)		**141,300**	145,563	151,016
Dividends Paid on Common Stock	7.0 %	**$ 109,175**	103,616	98,390
Per Share(a)	10.5 %	**$ 1.00**	.920	.840
Dividends Paid on Class B Common Stock	10.5 %	**$ 27,553**	25,428	23,156
Per Share(a)	10.5 %	**$ .905**	.835	.760
Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales		**7.4%(c)**	7.7%	7.8%
Depreciation	9.5 %	**$ 135,574**	138,489	135,016
Advertising	3.1 %	**$ 164,894**	187,505	202,408
Promotion	4.4 %	**$ 395,849**	469,709	451,580
Payroll	4.6 %	**$ 534,854**	563,045	524,827
Year-end Position and Statistics				
Capital Additions	(3.3)%	**$ 115,448**	161,328	172,939
Total Assets	6.3 %	**$3,346,652**	3,404,098	3,291,236
Long-term Portion of Debt	15.1 %	**$ 878,213**	879,103	1,029,136
Stockholders' Equity	(.2)%	**$1,098,627**	1,042,301	852,806
Operating Return on Average Stockholders' Equity(b)		**27.6%**	36.0%	33.4%
Operating Return on Average Invested Capital(b)		**14.8%**	17.4%	17.5%
Full-time Employees		**13,900**	14,700	14,900
Stockholders' Data(a)				
Outstanding Shares of Common Stock and Class B Common Stock at Year-end		**138,460**	143,147	142,932
Market Price of Common Stock at Year-end	10.2 %	**$ 47 7/16**	62 3/16	61 15/16
Range During Year		**$64 7/8-45 3/4**	76 3/8-59 11/16	63 7/8-42 1/8

See Notes to the Eleven-Year Consolidated Financial Summary on page A-35.

1996	1995	1994	1993	1992	1991	1990	1989
3,989,308	3,690,667	3,606,271	3,488,249	3,219,805	2,899,165	2,715,609	2,420,988
2,302,089	2,126,274	2,097,556	1,995,502	1,833,388	1,694,404	1,588,360	1,455,612
1,124,087	1,053,758	1,034,115	1,035,519	958,189	814,459	776,668	655,040
(35,352)	151	(106,105)	80,642	—	—	35,540	—
48,043	44,833	35,357	26,995	27,240	26,845	24,603	20,414
206,551	184,034	148,919	213,642	158,390	143,929	145,636	118,868
273,186	281,919	184,219	297,233	242,598	219,528	215,882	171,054
—	—	—	(103,908)	—	—	—	—
273,186	281,919	184,219	193,325	242,598	219,528	215,882	171,054
1.77(j)	1.70(k)	1.06(l)	1.65(m)	1.34	1.21	1.19(n)	.95
1.75	1.69	1.05	1.65	1.34	1.21	1.19	.95
—	—	—	(.58)	—	—	—	—
1.77(j)	1.70(k)	1.06(l)	1.07(m)	1.34	1.21	1.19(n)	.95
1.75	1.69	1.05	1.07	1.34	1.21	1.19	.95
154,334	166,036	174,367	179,929	180,775	180,767	180,766	180,824
155,690	166,721	174,740	180,495	181,160	181,112	180,987	180,984
93,884	91,190	89,660	84,711	77,174	70,426	74,161(g)	55,431
.760	.685	.625	.570	.515	.470	.495(g)	.370
20,879	18,900	17,301	15,788	14,270	12,975	13,596(g)	10,161
.685	.620	.5675	.5175	.4675	.425	.445(g)	.3325
7.7%(d)	7.6%	7.3%(e)	7.4%(f)	7.5%	7.6%	7.2%(h)	7.1%
119,443	119,438	114,821	100,124	84,434	72,735	61,725	54,543
174,199	159,200	120,629	130,009	137,631	117,049	146,297	121,182
429,208	402,454	419,164	444,546	398,577	325,465	315,242	256,237
491,677	461,928	472,997	469,564	433,162	398,661	372,780	340,129
159,433	140,626	138,711	211,621	249,795	226,071	179,408	162,032
3,184,796	2,830,623	2,890,981	2,855,091	2,672,909	2,341,822	2,078,828	1,814,101
655,289	357,034	157,227	165,757	174,273	282,933	273,442	216,108
1,161,021	1,082,959	1,441,100	1,412,344	1,465,279	1,335,251	1,243,537	1,117,050
27.5%	22.2%	18.5%	17.8%	17.3%	17.0%	16.6%	16.1%
17.8%	17.1%	15.6%	15.0%	14.4%	13.8%	13.4%	13.2%
14,000	13,300	14,000	14,300	13,700	14,000	12,700	11,800
152,942	154,532	173,470	175,226	180,373	180,373	180,373	180,373
43¾	32½	24 3/16	24½	23½	22 3/16	18¾	17 15/16
51¾-31 15/16	33 15/16-24	26¾-20 9/16	27 15/16-21¾	24 3/16-19⅛	22¼-17 9/16	19 13/16-14⅛	18 7/16-12⅜

Notes to the Eleven-Year Consolidated Financial Summary

(a) All shares and per share amounts have been adjusted for the two-for-one stock split effective September 13, 1996.

(b) Operating Return on Average Stockholders' Equity and Operating Return on Average Invested Capital have been computed using Net Income, excluding the 1993 Net Cumulative Effect of Accounting Changes, and the after-tax impacts of the 1990 Restructuring Gain, Net, the 1993 Gain on Sale of the Investment Interest in Freia Marabou a.s (Freia), the 1994 Restructuring Charge, the net 1995 Restructuring Credit, the 1996 Loss on Sale of Businesses, and the 1999 Gain on Sale of Business.

(c) Calculated percent excludes the 1999 Gain on Sale of Business. Including the gain, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 11.6%.

(d) Calculated percent excludes the 1996 Loss on Sale of Businesses. Including the loss, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 6.8%.

(e) Calculated percent excludes the 1994 Restructuring Charge. Including the charge, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 5.1%.

(f) Calculated percent excludes the 1993 Gain on Sale of Investment Interest in Freia. Including the gain, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 8.5%.

(g) Amounts included a special dividend for 1990 of $11.2 million or $.075 per share of Common Stock and $2.1 million or $.0675 per share of Class B Common Stock.

(h) Calculated percent excludes the 1990 Restructuring Gain, Net. Including the gain, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 7.9%.

(i) Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic for 1999 included a $1.18 per share gain on the sale of the pasta business. Excluding the impact of this gain, Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic would have been $2.11.

(j) Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic for 1996 included a $.23 per share loss on the sale of the Gubor and Sperlari businesses. Excluding the impact of this loss, Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic would have been $2.00.

(k) Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic for 1995 included a net $.01 per share credit associated with adjustments to accrued restructuring reserves. Excluding the impact of this net credit, Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic would have been $1.69.

(l) Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic for 1994 included a $.46 per share restructuring charge. Excluding the impact of this charge, Income Per Share from Continuing Operations Before Accounting Changes —Basic and Net Income Per Share—Basic would have been $1.52.

(m) Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic for 1993 included a $.23 per share gain on the sale of the investment interest in Freia. Excluding the impact of this gain, Income Per Share from Continuing Operations Before Accounting Changes—Basic would have been $1.43.

(n) Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic for 1990 included an $.11 per share Restructuring Gain, Net. Excluding the impact of this gain, Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic would have been $1.08.

(o) Includes the Gain on Sale of Business in 1999; Loss on Sale of Businesses in 1996; Restructuring Credit in 1995; Restructuring Charge in 1994; Gain on Sale of Investment Interest in 1993 and Restructuring Gain, Net in 1990.

Appendix B

Other Stockholder Information

OTHER STOCKHOLDER INFORMATION

INVESTOR INFORMATION

Stockholders

As of December 31, 1999, Hershey Foods Corporation had outstanding 108,015,711 shares of Common Stock and 30,443,908 shares of Class B Common Stock.

Year	Year-End Common Stock and Class B Common Stock Stockholders	Approximate Annual Composite Trading Volume
1999	**43,265**	**128,557,000**
1998	44,364	78,955,000
1997	44,602	74,781,000
1996	42,483	47,002,000
1995	38,480	30,498,000

Stock Market Data

Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange under the ticker symbol "HSY." Class B Common Stock is not listed for trading. The stock tables of most financial publications list the Corporation as "Hershey." Options on the Corporation's Common Stock are traded on the American Stock Exchange.

Common Stock Profile

1999 Calendar Quarter	Common Stock Price			Dividends Paid Per Share	
	High	Low	Close	Common Stock	Class B Stock
1st Quarter	$64 7/8	$54 1/8	$56 1/16	$.24	$.2175
2nd Quarter	59 1/2	48 13/16	59 3/8	.24	.2175
3rd Quarter	61 7/16	48 1/2	48 11/16	.26	.235
4th Quarter	54 3/16	45 3/4	47 7/16	.26	.235

Dividend Policy

Dividends on Hershey Foods Corporation's Common Stock and Class B Common Stock are declared by the Board of Directors and normally are paid in March, June, September and December.

The dividend to be paid on the Common Stock on March 15, 2000, will be the 281st consecutive quarterly dividend paid by the Corporation. The dividend rate has been increased annually for 25 consecutive years. Historically, the Corporation has targeted approximately one-third of its income from continuing operations for dividends to stockholders.

Investor Services Program

The Corporation, through its agent The Chase Manhattan Bank, offers an Investor Services Program. Features of the program include the ability to purchase initial shares of Hershey Foods Corporation Common Stock, as well as subsequent purchases, directly from our agent; dividend reinvestment on 10 shares or greater; automatic monthly deductions from a bank account for optional cash purchases; safekeeping of certificates; direct deposit of dividends; and an IRA option. For more information, contact:

The Chase Manhattan Bank
c/o ChaseMellon Shareholder Services
P.O. Box 3338
South Hackensack, NJ 07606-1938
(800) 851-4216

www.chasemellon.com
To request enrollment materials, please call (800) 842-7629.

Stockholder Inquiries

Questions relating to stockholder records, change of ownership, change of address and dividend payments should be sent to the Corporation's Transfer Agent, ChaseMellon Shareholder Services, whose address appears below.

Financial Information

Security analysts, investment managers and stockholders should direct financial information inquiries to the Investor Relations contact listed below.

1999 Annual Report

As in past years, we have published the 1999 Annual Report to Stockholders, consisting of Management's Discussion and Analysis and the Consolidated Financial Statements, as an appendix to the Corporation's Proxy Statement. While we have eliminated the glossy-style Annual Report (which contained the Letter to Stockholders now included with this publication), we have added a number of features to our corporate web site (www.hersheys.com) which provide information about various aspects of the Corporation's business. We invite you to visit this site at your leisure.

STOCKHOLDER INFORMATION

Executive Offices

100 Crystal A Drive
P. O. Box 810
Hershey, PA 17033-0810
(717) 534-4000

Transfer Agent and Registrar

ChaseMellon Shareholder Services L.L.C.
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
www.chasemellon.com
(800) 851-4216—Domestic Holders
(201) 329-8660—Foreign Holders
(800) 231-5469—Hearing Impaired

Independent Public Accountants

Arthur Andersen LLP
1345 Avenue of the Americas
New York, NY 10105

Investor Relations Contact

James A. Edris
Director, Investor Relations
100 Crystal A Drive
P. O. Box 810
Hershey, PA 17033-0810
(717) 534-7556
Email: jedris@hersheys.com

Financial Information

(800) 539-0261
www.hersheys.com

www.hersheys.com

Hershey Foods Corporation's web site provides access to a wide variety of information including products, recipes, news releases, a plant tour, and consumer information. A principal feature of the web site is the Investor Information section which contains general financial information (i.e., Hershey's corporate overview, Mission Statement, product information, financial fundamentals, and current stock quotes) and archived information (i.e., historical financial releases, annual reports, dividends and stock prices). The site also provides analyst presentations for those interested in a more in-depth review of the Corporation's operations as presented by senior management to the financial community. Another interesting feature is the "email alert," which allows users to receive automatic updates informing them when new items such as calendar events, presentations, dividends, annual reports and SEC documents are added to the site.

www.chasemellon.com

ChaseMellon Shareholder Services' web site offers tax reporting information; frequently asked tax questions; Dividend Reinvestment/Direct Stock Purchase Plan/Direct Deposit of Dividends enrollment materials; stock transfer instructions; account maintenance functions, such as address changes and Tax Identification Number changes; duplicate Forms 1099-DIV; account transcripts; dividend reinvestment statements; and an email address for general shareholder inquiries: shrrelations@chasemellon.com.

BOARD OF DIRECTORS
As of March 13, 2000

Kenneth L. Wolfe
Chairman of the Board and
Chief Executive Officer

William H. Alexander
Administrator
Family Business Program
The Wharton School of the
University of Pennsylvania
Philadelphia, PA

Robert H. Campbell
Chairman of the Board and
Chief Executive Officer
Sunoco, Inc.
Philadelphia, PA

C. McCollister Evarts, M.D.
Chief Executive Officer
The Milton S. Hershey
Medical Center
Senior Vice President for
Health Affairs and Dean
The Pennsylvania State
University
College of Medicine
Hershey, PA

Bonnie Guiton Hill
President and Chief
Executive Officer
The Times Mirror Foundation
Senior Vice President
The Los Angeles Times
Los Angeles, CA

John C. Jamison
Chairman of the Board
Mallardee Associates
Williamsburg, VA

Allan Z. Loren
Executive Vice President and
Chief Information Officer
American Express Company
New York, NY

Mackey J. McDonald
Chairman of the Board,
Chief Executive Officer and
President
VF Corporation
Greensboro, NC

Michael F. Pasquale
Executive Vice President
and Chief Operating Officer

John M. Pietruski
Chairman of the Board
Texas Biotechnology
Corporation
Houston, TX

Audit Committee

John C. Jamison, Chair
William H. Alexander
Allan Z. Loren
Mackey J. McDonald

Committee on Directors and Corporate Governance

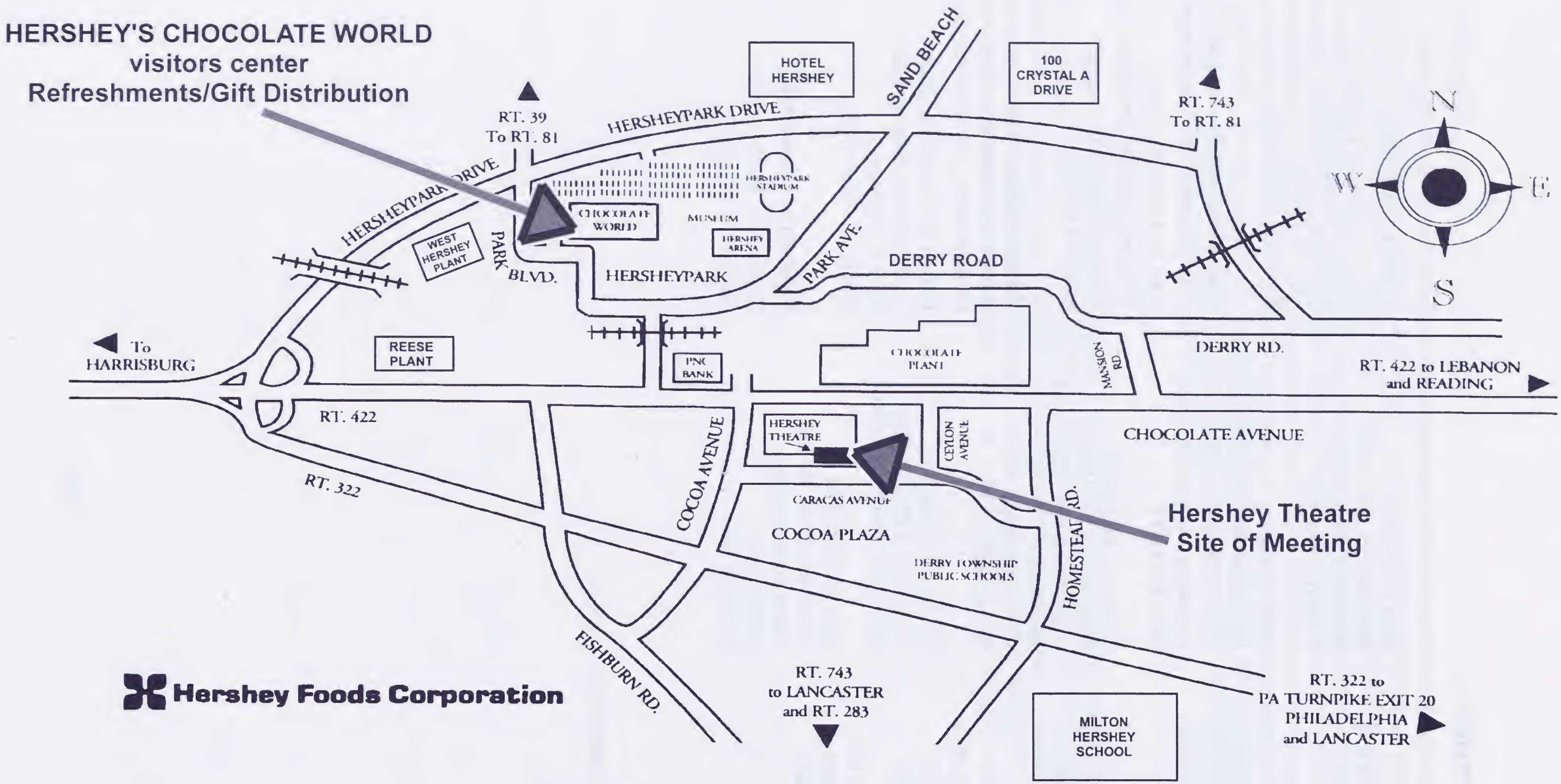
John M. Pietruski, Chair
William H. Alexander
Bonnie Guiton Hill
Kenneth L. Wolfe

Compensation and Executive Organization Committee

Robert H. Campbell, Chair
C. McCollister Evarts, M.D.
John C. Jamison
Mackey J. McDonald

Executive Committee

Kenneth L. Wolfe, Chair
Michael F. Pasquale



This map will help you find your way to the Hershey Theatre (located on East Caracas Avenue) and HERSHEY'S CHOCOLATE WORLD visitors center (located on Park Blvd.)
Hershey, Pennsylvania